

## **PART 2A.**

### Item 1. Cover Page

#### **Baochuan Capital Management, LLC**

This brochure provides information about the qualifications and business practices of Baochuan Capital Management, LLC ("BaoCap"). This brochure is dated as of September 18, 2012. If you have any questions about the contents of this brochure, please contact us at (925) 930-9498 or at [madams@baocap.com](mailto:madams@baocap.com). The information in this brochure has not been approved or verified by the California Department of Corporations or by any other regulatory agency.

BaoCap is an investment adviser in the process of registering as an investment adviser with the State of California. The registration with the State of California simply means that BaoCap is authorized to provide investment advisory services, and does not imply or indicate a certain level of skills or training of BaoCap or its employees. Additional information about BaoCap is also available on FINRA's website at <http://brokercheck.finra.org>.

#### **Business Address:**

1515 Oakland Boulevard, Suite 280  
Walnut Creek, CA 94596-8402

#### **Contact Information:**

Telephone - (925) 930-9498  
Facsimile - (925) 930-6992

#### **Website:**

[www.baocap.com](http://www.baocap.com)

## Item 2. Material Changes

Material changes generally include but are not limited to changes in ownership, executive personnel, operating policies and procedures and investment strategy.

The following material changes have taken place with regards to Baochuan Capital Management LLC (“BaoCap”).

Since, January 1, 2012

- 1) Burton Malkeil’s title changed from Chief Investment Officer to Chairman of the Board of Directors in February 2012.
- 2) BaoCap is in the process of registering as an investment adviser with the State of California. BaoCap will de-register from the US Securities & Exchange Commission.
- 3) Mark Wehrman resigned from the firm as its Director of Business Development in July 2012.

Since, January 1, 2011

- 1) On October 27, 2011, the General Partner filed with the Secretary of State of the State of Delaware a Certificate of Amendment changing the name of the Partnership from “Alphashares Black Dragon Fund, L.P.” to “Baochuan Black Dragon Fund, L.P.”
- 2) BaoCap’s affiliate, Alphashares, LLC, has ceased operating as an investment adviser of client assets.
- 3) BaoCap’s affiliate, Big Tree Capital LLC, is currently not an active investment adviser of client assets.

### Item 3. Table of Contents

<b>PART 2A.</b>	1
Item 1. Cover Page	1
Item 2. Material Changes	2
Item 3. Table of Contents	3
Item 4. Advisery Business	4
Item 5. Fees and Compensation	5
Item 6. Performance-Based Fees and Side-By-Side Management	7
Item 7. Types of Clients, Account Opening and Maintenance Requirement	9
Item 9. Disciplinary Information	18
Item 10. Other Financial Industry Activities and Affiliations	19
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	20
Item 12. Brokerage Practices	23
Item 13. Review of Accounts	26
Item 14. Client Referrals and Other Compensation	27
Item 15. Custody	28
Item 16. Investment Decision	29
Item 17. Voting Client Securities	30
Item 18. Financial Information	32
Item 19. Requirements for State-Registered Advisers	33

#### Item 4. Advisory Business

##### A. The Firm and the Principal Owners.

BaoCap is currently applying to register as an investment adviser with the State of California. BaoCap was formed on December 1, 2010 and began operations in February 2011. BaoCap is a Delaware limited liability company with a principal place of business in Walnut Creek, California. It maintains the main office at 1515 Oakland Boulevard, Suite 280, Walnut Creek, CA 94596-8402. BaoCap is wholly owned by Baochuan Holding, LLC ("Baochuan Holding").

##### B. Types of Services Offered

BaoCap offers investment advisory and money management services to individuals and institutions, which may include banks and thrift institutions, foundations, endowments, investment companies, hedge funds, pension funds, trusts, and corporations. BaoCap specializes in investment strategies in equity securities and bonds. BaoCap offers both managed accounts and private fund accounts. BaoCap currently manages proprietary accounts and hedge funds (collectively, the "Accounts"). The hedge funds are Baochuan Black Dragon Fund, L.P. (previously AlphaShares Black Dragon Fund, L.P.), Baochuan Green Dragon Fund, L.P. (previously AlphaShares Green Dragon Fund, L.P.), Baochuan China Century Fund, L.P., Baochuan Global Equity Fund, L.P. and AlphaShares Red Dragon Fund, L.P. (a Fund in Liquidation).

##### C. Level of Services Provided to Clients

BaoCap tailors its advisory services to the individual needs of its clients. BaoCap will discuss and advise clients on the types of investment and investment strategies based on their financial situations and goals. The clients may impose restrictions on the types of investments or securities. Following the discussion, the clients and BaoCap will agree on a desired investment strategy and any restrictions and limitations on account transactions. BaoCap will manage its client accounts on a fully discretionary basis, but subject to the strategy that the client has approved and any limitations and/or guidelines that the client has placed. However, an investor who subscribes to interests in one or more Funds, will not have input regarding the investment strategy or operations of that Fund.

##### D. Wrap Fee Programs

BaoCap does not currently participate in wrap fee programs.

##### E. Assets under Management

BaoCap managed approximately \$11 million as of August 31, 2012. All client assets are managed on a discretionary basis.

## Item 5. Fees and Compensation

### A. Investment Advisory Fees

BaoCap calculates the fees for its investment advisory services based on the percentage of assets under management. The fees are negotiable between clients and BaoCap. Lower fees may be available from other firms for similar advisory services. Generally, BaoCap charges a quarterly management fee in advance ranging from 0.125% to 0.25% (0.5% to 1% per annum) of the net asset value of the assets under management. BaoCap may at its sole discretion waive or reduce the fee.

For certain Accounts, BaoCap may assess performance based fees. Baochuan Black Dragon Fund, L.P. currently charges 10% and Baochuan Green Dragon (Class B Interests) currently charges 5% of the quarterly profits subject to a “high water mark”. In general, the high water mark standard states that BaoCap will carry forward any losses from previous quarters when it calculates the performance based fee. This means that the performance based fees will be assessed only if the cumulative profit exceeds all previous losses in the client accounts. Refer to Item 6 for more details describing performance based fees and high water mark.

### B. Deduction of Fees from the Accounts

Generally, the fees for investment advisory services will be charged in advance to the client accounts on the first business day of each fiscal quarter. The performance fees will be charged to the client accounts on the last business day of each fiscal quarter. Fees are debited directly from the client accounts within the next quarter following the charge to the account.

### C. Additional Fees and Expenses

The quarterly fees do not include fees or expenses incurred outside of investment advisory services, such as brokerage fees and commissions, fund administration, audit and tax preparation. Please see Item 12 for the brokerage practices that describe services and transactions that may incur fees in addition to the quarterly investment advisory fees.

### D. Advanced Fees

BaoCap bills the investment advisory fees quarterly, payable in advance on the first day of the quarter. Each quarterly billing is computed based on the market value of the client's assets under management as of the last day of the preceding quarter plus any additional subscriptions less any withdrawals. Please see Item 5.A. for the schedule of fees listing the specific percentages of assets under management that will be charged quarterly for the investment advisory fees. If the advisory or investment management relationship is terminated prior to the last business day of a fiscal quarter, the fees paid in advance will be prorated to the date of termination and any unearned portion of the fees will be returned to the client.

### E. Compensation for Sale of Securities or Other Investment products

BaoCap does not assess sales or service charges in connection with the purchase or sale of securities in client accounts. As discussed in Item 5.C. above, brokerage fees and commissions may be assessed with such securities transactions.

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

As discussed in Item 5.A, BaoCap may assess percentage based and performance based fees to certain client accounts. BaoCap's investor adviser representatives manage both types of accounts. Accounts charging performance based fees present a conflict of interest for BaoCap's investor adviser representatives. The performance based fees create an incentive for BaoCap investor adviser representatives to take disproportionately higher risks in order to generate a higher incentive allocation. Additionally, BaoCap may have an incentive to over-allocate certain trades with higher expected return to accounts paying performance based fees. As such, BaoCap has implemented procedures and policies to avoid any action that could result in an unfair or inequitable disadvantage to any client account or unfair or inequitable advantage to any client account that is charged performance based fees. Generally, BaoCap follows the allocation procedure below to avoid such conflict of interests:

- *pro rata* among all accounts based upon the respective sizes of the participating client accounts; or
- based upon a uniform target percentage holding across all participating client accounts, unless there are limit orders.

Performance based fees are calculated relative to a high water mark, which prevents the General Partner from receiving the performance based fee until past losses are restored. However, there is no guarantee that prior losses will ever be recovered. Also, the performance based fee is calculated on all gains, whether realized or unrealized. A performance based fee may only be assessed when cumulative profits exceed all previous losses in the account. Net losses are carried forward until such time that cumulative profits exceed all carried forward losses. The performance based fee is then assessed based on the difference between cumulative profits and carried forward loss. Performance based fees are charged upon withdrawal or at the end of each calendar quarter.

In addition, when BaoCap believes that it can effectively obtain best execution for its accounts by aggregating trades for any accounts charged performance-based fees, it will do so for all accounts for which the trades are both suitable and consistent with the respective investment advisory contracts, investment guidelines, and other agreements and understandings relating to such accounts. Each account that participates in an aggregated security order will participate at the average share price for such order on a given business day, with transaction costs shared *pro rata* based on each account's participation, unless otherwise required by contract or applicable law. BaoCap does not favor one account over another account.

BaoCap may only charge qualified clients performance based fees as specified under California Code of Regulations ("CCR") Section 260.234, which requires that a client meet certain criteria in order to qualify. Generally, the investment adviser must believe that the person has assets of more than \$2 million dollars at the time the subscription agreement or advisory contract is entered into or have invested \$1 million dollars with the investment adviser. Additionally, investors subscribing through a Trust or Partnership, retirement account or other investment

vehicle may be subject to additional requirements or limitations which are described in more detail in the BaoCap's subscription documents.



## Item 7. Types of Clients, Account Opening and Maintenance Requirement

BaoCap generally provides investment advisory and money management services to individuals and institutions, which may include banks and thrift institutions, foundations, endowments, investment companies, hedge funds, pension funds, trusts, and corporations. BaoCap's managed accounts are open to individuals and institutions regardless of their net worth. BaoCap, however, requires \$100,000 minimum investment amount for opening a managed account. BaoCap's private funds accounts are offered only to individuals and entities who meet the eligibility requirement. In addition, the minimum subscription amount for each hedge fund varies. The investor eligibility and the minimum investment or subscription amount are summarized as follows:

Account	Investor Eligibility	Minimum Investment / Subscription Amount*
Managed Accounts	<ul style="list-style-type: none"> <li>▪ No net worth requirement</li> </ul>	\$100,000
Black Dragon	<ul style="list-style-type: none"> <li>▪ Accredited Investors (as defined in the Securities Act of 1933)</li> <li>▪ Qualified Clients (as defined in the California Code of Regulations)</li> <li>▪ Knowledgeable Employees (as defined in the Investment Company Act)</li> </ul>	\$100,000
Red Dragon	<ul style="list-style-type: none"> <li>▪ Accredited Investors (as defined in the Securities Act of 1933)</li> <li>▪ Qualified Clients (as defined in the California Code of Regulations)</li> <li>▪ Qualified Purchasers (as defined in the Investment Company Act)</li> <li>▪ Knowledgeable Employees (as defined in the Investment Company Act)</li> </ul>	\$1,000,000
Green Dragon	<ul style="list-style-type: none"> <li>▪ Accredited Investors (as defined in the Securities Act of 1933)</li> <li>▪ Qualified Clients (as defined in the California Code of Regulations)</li> <li>▪ Qualified Purchasers (as defined in the Investment Company Act)</li> <li>▪ Knowledgeable Employees (as defined in the Investment Company Act)</li> </ul>	\$1,000,000

Global Equity	<ul style="list-style-type: none"> <li>▪ Accredited Investors (as defined in the Securities Act of 1933)</li> <li>▪ Qualified Clients (as defined in the California Code of Regulations)</li> <li>▪ Qualified Purchasers (as defined in the Investment Company Act)</li> <li>▪ Knowledgeable Employees (as defined in the Investment Company Act)</li> </ul>	\$1,000,000
China Century	<ul style="list-style-type: none"> <li>▪ Accredited Investors (as defined in the Securities Act of 1933)</li> <li>▪ Qualified Clients (as defined in the California Code of Regulations)</li> <li>▪ Qualified Purchasers (as defined in the Investment Company Act)</li> <li>▪ Knowledgeable Employees (as defined in the Investment Company Act)</li> </ul>	\$1,000,000

\*BaoCap may increase or decrease the minimum investment or subscription amount at its sole discretion.

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

### A. Method of Analysis and Investment Strategies

BaoCap uses a variety of analytical models in formulating investment strategies and managing accounts. Among others, BaoCap uses fundamental analysis, technical analysis, quantitative analysis and cyclical analysis. BaoCap analyzes the underlying value of a company that issues securities by examining financial statements, price/earnings ratio, competitiveness, management, revenue, relevant markets and competitors of the issuing company. BaoCap also examines historical price patterns and trading behavior, and monitors current market trends and sentiments as indicated by price movements.

BaoCap currently offers its clients a number of investment strategies available in different investment products. Its main strategies are outlined below.

#### ▪ **Green Dragon Strategy**

The investment manager applies a “buy-write” strategy to the Chinese equity markets. Specifically, the investment manager intends to buy a diversified portfolio of Chinese equities (the “Long Portfolio”), while managing risk by systematically selling call options on Chinese equity indices that the investment manager believes to have a high correlation with the Long Portfolio (the “Short Portfolio”).

At times, the investment manager may implement a short put and long cash strategy, which when paired, offers the same synthetic risk-profile as the long stock and short call strategy. The investment manager would initiate such a position to (i) form a liquidity pool to counter turnover in the fund due to withdrawals, (ii) synthetically invest assets more quickly, or (iii) reduce anticipated turnover based on upcoming options assignments.

#### *Long Portfolio*

The Long Portfolio typically consists of 25-100 of the largest Chinese companies listed on major international exchanges and available to non-Chinese investors. The Long Portfolio largely includes shares of Chinese companies that trade on the Hong Kong Stock Exchange (i.e., “H-Shares” or “Red Chips”) and on the New York Stock Exchange or NASDAQ Stock Market (i.e., “N-Shares”). However, the Long Portfolio may include shares of Chinese companies that trade on other stock exchanges. At this time, the Long Portfolio does not include shares that trade on Chinese exchanges in Shanghai or Shenzhen (i.e., “A-Shares” or “B-Shares”).

The investment manager attempts to select and weigh the Long Portfolio to provide broad diversification with respect to the Chinese equity markets and high correlation with a basket of Chinese indices that have tradable and liquid options markets. Although the investment manager seeks limited diversification, there is no guarantee that the fund will be diversified at any given time.

### *Short Portfolio*

The Short Portfolio strategy is designed to generate income, enhance returns and reduce risk by systematically selling a succession of near-term (generally within one to three months) at-the-money or slightly out-of-the-money call options on Chinese equity indices and/or securities based on such indices. The notional value of the Short Portfolio will be equal to roughly 100% of the Long Portfolio. Because Chinese equity markets are extremely volatile, the premiums received from selling such options are higher than the premiums that might be received from selling call options on more developed markets such as those in the United States.

As the writer (seller) of a call option, the fund receives the cash premium from the purchaser of the option and has the obligation, upon exercise of the option, to deliver the underlying security upon payment of the exercise price. In writing options, the fund sells the potential appreciation in the value of the security above the exercise price during the term of the option in exchange for the premium. While the fund may receive premiums under the Short Portfolio strategy, the fund gives up any potential increase in value of the security above the exercise price specified in the written option through the expiration date of the option. The dollar value of option premium received from the sold call options and dividends paid on the portfolio stocks will generally be re-invested so as to rebalance the underlying Long Portfolio.

In implementing the Short Portfolio strategy, the investment manager considers: (i) the risk profile of the Short Portfolio, (ii) market factors, such as current market levels and volatility, and (iii) options specific factors, such as premium/cost, exercise price and time to expiration. The investment manager attempts to maintain for the fund written call options positions whose price movements, taken in the aggregate, are correlated with the price movements of the common stocks and other securities held in the Long Portfolio. The Short Portfolio strategy involves significant risk that the initial value and/or changes in value of the individual equity securities underlying the fund's written call options positions generally do not correlate closely with the initial value and/or changes in the value of securities held in the Long Portfolio. To the extent that there is a lack of correlation, movements in the indices underlying the options positions may result in losses to the fund, which may more than offset any gains received by the fund from the receipt of options premiums and may be significant.

Generally, the Short Portfolio of call options are held to expiration. Subsequent to the expiration of the existing Short Portfolio of index call options, a new series of similar options expiring in the following one to three-month period will then be sold. This process is typically referred to as the “roll.”

#### ▪ **Black Dragon Strategy**

The investment manager seeks to purchase a long portfolio of high quality Chinese companies when they are available at prices the investment manager believes are undervalued. The investment manager may also opportunistically sell short other Chinese equities it believes are overvalued.

### *The Portfolio*

The Portfolio typically consists of 1-20 Chinese companies listed on major international exchanges and available to non-Chinese investors. The Portfolio largely includes shares of Chinese companies that trade on the Hong Kong Exchange (i.e., “H-Shares” or “Red Chips”) and on the New York Stock Exchange or NASDAQ Stock Market (i.e., “N-Shares”). The Portfolio may include shares of Chinese companies that trade on other stock exchanges. At this time, the Portfolio does not include shares that trade on Chinese exchanges in Shanghai or Shenzhen (i.e., “A-Shares” or “B-Shares”). The Portfolio may also include non-Chinese companies that have business dealings in and with China, including but not limited to companies domiciled in Hong Kong, Macao and Taiwan.

The investment manager seeks to invest in companies that have more than one and preferably all of the following characteristics:

- Recurring revenue
- Pricing power and high margins
- High returns on equity and assets
- Revenue growth

The investment manager seeks to make such investments when it believes that the shares of such companies are undervalued. The investment manager may also opportunistically sell short companies that it believes do not have the qualities listed above and in the opinion of the investment manager are overvalued.

#### **▪ Red Dragon Strategy**

The investment manager applies quantitative investment strategies to the Chinese equity markets. Specifically, the investment manager intends to buy a broadly diversified portfolio of Chinese equities while typically overweighting, relative to major China equity benchmarks, those Chinese companies that are smaller and/or less expensive using traditional valuation metrics.

### *The Portfolio*

The Portfolio typically consists of 100 or more Chinese companies listed on major international exchanges and available to non-Chinese investors and those foreign investors without a quota of qualified foreign institutional investors (i.e., QFII quota). The Portfolio largely includes shares of Chinese companies that trade on the Hong Kong Exchange (i.e., “H-Shares” or “Red Chips”) and on the New York Stock Exchange or NASDAQ Stock Market (i.e., “N-Shares”). The Portfolio may include shares of Chinese companies that trade on other stock exchanges. At this time, the Portfolio does not include shares that trade on Chinese exchanges in Shanghai or Shenzhen (i.e., “A-Shares” or “B-Shares”).

The investment manager typically overweights those stocks that have smaller market capitalizations and/or those that are less expensive when measured by traditional valuation

metrics (Price to Earnings, Price to Book Value, Price to Sales, etc.). The investment manager expects the portfolio to have lower than average turnover.

- **China Century Strategy**

The strategy seeks to achieve its investment objective by pursuing its strategy of investing in a diversified portfolio of securities of Chinese companies and China-linked companies. Under normal market conditions, the fund allocates at least 50% of its investable assets to direct China investment through the fund's China Equities Strategy and China Real-Estate Strategy, both as described below, and allocates up to 50% of its investable assets to investment to China-linked companies through the fund's China-linked U.S. Equities Strategy and China-linked International Equities Strategy, both as described below.

- **Global Equities Strategy**

The Global Equities Strategy consists of a combination of the China-Linked U.S. Equities Strategy and the China-Linked International Equities Strategy.

*The Portfolio*

China-Linked U.S. Equities Strategy consists of equity securities of U.S. issuers selected by the investment manager from a universe of companies with significant exposure to China. The investment manager selects companies that it expects to benefit from their exposure to China.

China-Linked International Equities Strategy consists of equity securities of non-U.S. issuers selected by the investment manager from a universe of companies with significant exposure to China. The investment manager selects companies that it expects to benefit from their exposure to China.

- **Other Strategies**

In addition, BaoCap in its sole discretion may invest in high quality U.S. or non-U.S. fixed-income securities, money market instruments, and money market mutual funds, or hold cash or cash equivalents. BaoCap may also invest in money market instruments issued by non-U.S. banks. Any income, including without limitation, interest earned from such investments will be reinvested in accordance with its investment program and will be allocated among the clients in the same manner as other items of income.

- **Risk of Loss**

All securities investments risk the loss of capital and clients should be ready to bear any losses incurred from investing in securities. While BaoCap puts its best efforts to the management of clients' assets, there can be no assurance that it will not incur loss. Each investor risks losing their entire investment.

## B. Material Risks Involved in the Method of Analysis or Significant Investment Strategy

### ▪ Information Risk

For each methods of analysis, BaoCap relies on the information and data filed by the Chinese companies with various international and domestic government agencies or made directly available to BaoCap through sources other than the Chinese companies. Although BaoCap independently analyzes all such information and data and obtains additional corroboration when deemed necessary and available, BaoCap is not able to guarantee the completeness, genuineness or accuracy of such information and data.

### ▪ Concentration on Securities Issued by Chinese Companies.

Certain BaoCap strategies may involve a concentrated investment in securities issued by Chinese companies. Investment in Chinese companies involves risks and special considerations that are not typically associated with investments in the United States. Please see Item 8.C. below for detailed discussions on material risks involved with investing in securities issued by Chinese companies.

### ▪ Short Sales.

BaoCap may use short sales to hedge the risk of declines in the market value of the long portfolio, but BaoCap cannot assure that such hedging operations will be successful. Selling securities short without owning them may be considered a speculative technique that involves special risk considerations. Short positions will lose value when the value of securities increases. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may increase continuously. BaoCap may mitigate such losses by replacing the securities sold short before the market price has increased significantly; however, under adverse market conditions, BaoCap might have difficulty purchasing securities to meet its short sale delivery obligations. BaoCap may have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

### ▪ Call Options.

Covered call options forgo the opportunity to profit from increase in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retain the risk of loss should the price of the underlying security decline. If a call option purchased by BaoCap is not sold when it has remaining value, and if the market price of the underlying security remains less than or equal to the exercise price, client accounts risk losing the entire investment in the option. Also, where a call option on a particular security is purchased to hedge against price movements in a related security, the price of the option may move more or less than the price of the related security. BaoCap has limited control over the time when it may be required to fulfill its obligation as a writer of the option. Once BaoCap receives an exercise notice, it cannot effect a closing purchase transaction in order to terminate

its obligation under the option and must deliver the underlying security at the exercise price. Thus, the use of options may require BaoCap to sell portfolio securities at inopportune times or for prices other than current market values. Such sales may limit the amount of appreciation in clients' investments. If BaoCap is unable to close out an option that it has purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless.

#### C. Material Risks Involved with Primarily Recommended Securities

BaoCap largely invests in securities of Chinese companies that trade on the Hong Kong Exchange (i.e., "H-Shares" or "Red Chips"), the New York Stock Exchange or NASDAQ Stock Market (i.e., "N-Shares"). BaoCap may include non-Chinese companies that have business dealings in and with China, including but not limited to companies domiciled in Hong Kong, Macao and Taiwan. Investments in Chinese companies or companies doing business in Chinese markets involve certain risks and special considerations not typically associated with investments in the U.S.

- Chinese Economy and Securities Market.

Since 1949, the People's Republic of China has been a socialist state controlled by the Communist party. China has only recently opened up to foreign investment and has only begun to permit private economic activity. China has been transitioning to a market economy since the late 1970s, reaffirming its economic policy reforms through five-year programs, the latest of which (for 2006 through 2010) was approved in March 2006. Under the economic reforms implemented by the Chinese government, the Chinese economy has experienced tremendous growth, developing into one of the largest and fastest growing economies in the world. The Chinese government continues to be an active participant in many economic sectors through ownership positions and regulation. The Chinese economy is export-driven and highly reliant on trade. The performance of the Chinese economy may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Investments in Chinese companies involve certain risks and special considerations not typically associated with investments in the United States.

- Types of Securities of Chinese Companies.

*H-Shares.* "H-Shares" are shares of companies incorporated in mainland China and listed on the Hong Kong Stock Exchange. Issuers of H-Shares must meet the listing and disclosure standards of the Hong Kong Stock Exchange. H-Shares are denominated and traded in Hong Kong dollars and are often the vehicle for extending a Chinese privatization transaction to foreign investors. At this time, the fund intends to invest in H-Shares.

*N-Shares.* Certain Chinese companies have secondary listings on U.S. stock exchanges, including the New York Stock Exchange and the NASDAQ Stock Market, typically in the form of American Depositary Receipts (ADRs) or American Depositary Shares (ADSs). Such



securities are commonly referred to as “N-Shares.” N-Shares are traded in U.S. dollars and must meet the listing requirements of the exchange on which they are traded. Depositary receipts may be issued as sponsored or unsponsored programs. In sponsored programs, an issuer makes arrangements to have its securities trade in the form of depositary receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Although depositary receipts are alternatives to purchasing the underlying foreign securities on foreign securities exchanges, they continue to be subject to many of the risks associated with investing directly in foreign securities. At this time, the fund intends to invest in N-Shares.

*Red Chips.* “Red Chip” stocks are shares of issuers that are incorporated in Hong Kong but have controlling Chinese shareholders, often Chinese governmental or quasi-governmental entities. Red Chip stocks are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars. Red Chip issuers must meet the listing and disclosure standards of the Hong Kong Stock Exchange. Such companies generally have a majority of their business operations in mainland China and are frequently organized as a vehicle for indirect listing of Chinese assets on the Hong Kong Stock Exchange. At this time, the fund may consider investments in Red-Chips.

*A-Shares and B-Shares.* Currently, there are two officially recognized securities exchanges in mainland China, the Shanghai Stock Exchange, which commenced trading on December 19, 1990, and the Shenzhen Stock Exchange, which commenced trading on July 3, 1991. The Shanghai and Shenzhen Stock Exchanges divide listed shares into two classes: A-Shares and B-Shares. Both classes represent an ownership interest comparable to a share of common stock and all shares are entitled to substantially the same rights and benefits associated with ownership. Foreign investors have historically been unable to participate in the A-share market. B-Shares are denominated and traded in foreign currencies (U.S. dollars on the Shanghai Stock Exchange and Hong Kong dollars on the Shenzhen Stock Exchange) and were originally intended to be available only to foreign investors.

*Other Chinese Securities.* A number of Chinese companies are listed and traded on the Stock Exchange of Singapore. Many of these companies were founded and owned by private entrepreneurs and could not be listed on the Chinese domestic exchanges as priority is given to state owned companies. Several Chinese companies are also listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs). Consistent with a strategies’ investment objective and policies, the investment manager may consider investments in the shares of Chinese companies listed on the Stock Exchange of Singapore or on the London Stock Exchange or in any other types of securities of Chinese companies that are or become legally available to foreign investors.

## Item 9. Disciplinary Information

BaoCap and its investment adviser representatives do not have disciplinary history, such as criminal or civil actions in courts, administrative proceedings of the SEC or other federal or state regulatory agencies, or proceedings with self-regulatory organizations.

## Item 10. Other Financial Industry Activities and Affiliations

### A. Registered Broker-Dealers

BaoCap and its management persons are not registered as broker-dealers.

### B. Registered Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Adviser

BaoCap and its management persons are not registered as futures commission merchants, commodity pool operators, or commodity trading advisers.

### C. Material Relationships with Related Persons, Material Conflicts of Interests from Relationships or Arrangements with Related Persons

BaoCap manages hedge funds of which the General Partner is Baochuan Holding, LLC. BaoCap recognizes that there is a potential conflict of interests where account managers may provide more favorable investment opportunities to the hedge funds accounts over managed accounts due to the potential to earn performance based fees. It is BaoCap's objective to avoid such conflicts of interest and treat each client account fair and equitably. As described in Item 6, BaoCap has adopted a standard procedure of allocation such that allocations are fair and equitable. In addition, BaoCap's policy does not permit allocations of investment opportunities based on preferential treatment or tradable position sizes retained in each client account.

BaoCap is affiliated with AlphaShares, which was previously an SEC-registered investment adviser that formulated securities indices and Exchange Traded Funds ("ETFs") and with Big Tree Capital LLC, an inactive investment adviser registered with the State of California. As described in Item 4.A.1. of Part 2B Brochure Supplement, the account managers of BaoCap were also managers of AlphaShares. Only Kevin Carter was active with Big Tree Capital LLC serving as its Managing Member. The account managers are not obligated to allocate a specified amount of time and effort in managing BaoCap's client accounts, but they will devote such time to the affairs of BaoCap as they, in their sole discretion, determine to be necessary for the conduct of BaoCap's business. Neither AlphaShares nor Big Tree Capital LLC, however, currently advise client assets. Accordingly, BaoCap is not concerned that managers of AlphaShares will unfairly disadvantage BaoCap's client accounts of any investment opportunity.

### D. Conflicts of Interests from Arrangement with Other Investment Advisers

BaoCap does not recommend or select other investment advisers for its clients.

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

A. Description of Code of Ethics

BaoCap has adopted a Code of Ethics as of December 2010 (as Amended February 2011) to establish guidelines and procedures that are designed to identify and prevent its employees who may have knowledge of clients' investments ("Access Persons") from breaching their fiduciary duties to the clients and address other real or potential conflict of interest. Access Persons are required to certify their compliance with the Code of Ethics on an annual basis. Access Persons are required to retain a copy of Code of Ethics. Upon request, a copy of the Code of Ethics will be provided to BaoCap clients.

BaoCap's Code of Ethics embodies the following general principles:

- BaoCap owes a fiduciary obligation to all clients, and therefore, Access Persons of the Firm have a duty to act in a manner that supports this obligation.
- Access Persons have the duty at all times to place the interests of all clients first and foremost.
- Access Persons must refrain from taking inappropriate advantage of their positions with BaoCap.
- Access Persons must conduct their securities transactions in personal accounts in a manner that avoids conflicts or the appearance of conflicts of interest, or abuses of their position of trust and responsibility.
- Access Persons must avoid actions or activities that allow (or appear to allow) them or their immediate families to benefit from their positions with BaoCap, at the expense of the clients, or that bring into question their independence or judgment.
- Access Persons must comply with all applicable Federal Securities Laws.

In addition, Access Persons are required to receive a written approval from BaoCap's Chief Compliance Officer prior to transacting any securities and private investments for their personal accounts or accounts over which they have beneficial ownership. Access Persons must report all of their personal transactions to the Chief Compliance Officer at the end of each calendar quarter. The Chief Compliance Officer considers the following factors prior to approving a proposed personal transaction in securities:

- Whether any client has a pending "buy" or "sell" order in that security or has completed a recent purchase or sale of that security.

- Whether the amount or nature of the personal transaction or the person effecting the transaction is likely to affect the price of or market for the security.
- Whether the personal transaction would create the appearance of impropriety, regardless of whether an actual conflict exists.

Under BaoCap's Code of Ethics, Access Persons are mandated to give priority to clients prior to the execution of transactions in their personal accounts (including accounts owned by their immediate family members). Access Persons must also give priority to the clients before transacting securities in accounts for any person that is not a client on which such Access Person exercises control or provides investment advice. Trading for such accounts must be conducted in a manner so that the trading does not conflict with the interests of BaoCap's client.

BaoCap believes that an inherent conflict of interest exists in each of the following situations, each of which is prohibited by its Code of Ethics:

- Contemporaneously purchasing the same securities for a client account and an account of an Access Person without making an equitable allocation of the securities to the client first, on the basis of such considerations as available capital and current positions, and then to the account of the Access Person.
- Knowingly purchasing or selling securities, directly or indirectly, in such a way as to cause an adverse effect on the value of a client's account.
- Using knowledge of securities transactions by a client to profit personally, directly or indirectly, by the market effect of such transactions.
- Giving to any person information that is not generally available to the public about contemplated, proposed or current purchases or sales of securities by or for a client, except to the extent necessary to effectuate such transactions.

Access Persons are required to certify their compliance with the Code of Ethics on an annual basis. BaoCap will provide a copy of its code of ethics upon demand to a client or a prospective client.

All BaoCap personnel are encouraged to report any suspected or actual violations of applicable law or BaoCap's policies and procedures. They may make the report to either their supervisor or the Chief Compliance Officer. Supervisors are required to report any personnel reports to the Chief Compliance Officer. BaoCap, to the extent reasonably possible, will keep confidential the information reported and the source of that information, other than on a need-to-know basis as determined in the sole discretion of the Chief Compliance Officer, or as required by operation of law. Should an employee wish to report a violation or potential violation anonymously to the Chief Compliance Officer or other member of Senior Management, such employee may do so. BaoCap will not take retaliatory, directly or indirectly, against any employee who reports a violation of the BaoCap's policies and procedure. Supervisors who wish to reassign, transfer or

materially change the duties of an employee who has made such a report shall obtain the written consent of the Chief Compliance Officer prior to taking such actions.

**B. Recommending, or Buying or Selling for Client Accounts, Securities in which BaoCap or its Related Persons Have Material Financial Interests**

Please see Item 11A. above for BaoCap's policies and procedures addressing the potential conflict of interests in connection with securities in which BaoCap and its personnel may have material financial interests. BaoCap is affiliated with AlphaShares, which no longer advises clients of its own. Please see Item 10C. above for BaoCap's policies and procedures addressing the potential conflict of interest relating to Baochuan Holding's ownership interests in the hedge funds managed by BaoCap and allocations of investment opportunities between hedge funds and managed accounts.

**C. Investment in the Same Securities (or Related Securities such as Warrants, Options, or Futures) that BaoCap or its Related Persons Recommend to Clients**

Please see Item 11A. above for BaoCap's policies and procedures addressing the potential conflict of interests in connection with investing in the same (or related) securities that BaoCap or its Related Persons recommend to clients. BaoCap is affiliated with AlphaShares and Big Tree Capital LLC. AlphaShares has ceased operating as an investment adviser and Big Tree, which maintains its adviser registration with the State of California, does not currently advise client assets. Please see Item 10C. above for BaoCap's policies and procedures addressing the potential conflict of interest relating to Baochuan Holding's ownership interests in the hedge funds managed by BaoCap and allocations of investment opportunities between hedge funds and managed accounts.

**D. Recommending, or Buying or Selling for Client Accounts, Securities at or about the Same Time BaoCap or Its Related Persons Buy or Sell the Same Securities for Their Own Accounts**

Please see Item 11A. above for BaoCap's policies and procedures addressing the potential conflict of interests in connection with recommending securities that BaoCap or its Related Persons buy or sell for their own accounts. BaoCap is affiliated with AlphaShares and Big Tree Capital LLC. AlphaShares has ceased operating as an investment adviser and Big Tree, which maintains its adviser registration with the State of California, does not currently advise client assets. Please see Item 10C. above for BaoCap's policies and procedures addressing the potential conflict of interest relating to BaoChuan Holding's ownership interests in the hedge funds managed by BaoCap and allocations of investment opportunities between hedge funds and managed accounts.

## Item 12. Brokerage Practices

### A. Criteria for Selecting Broker-Dealers

Generally, BaoCap selects broker-dealers in order to obtain the best execution for client transactions, taking into consideration the following factors:

- The ability to effect prompt and reliable executions at favorable prices (including without limitation, the applicable dealer spread or commission, if any)
- The operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution
- The financial strength, integrity and stability of the broker-dealer
- The broker-dealer's risk in positioning a block of securities
- The quality, comprehensiveness and frequency of available research services considered to be of value
- The competitiveness of commission rates in comparison with other broker-dealers

BaoCap may also consider the following types of arrangements with broker-dealers.

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

a. BaoCap may enter into soft-dollar arrangements pursuant to which BaoCap may obtain research and brokerage services permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The research services may include advice and analysis on issuers or securities directly provided by broker-dealers or by a third party research providers, as well as real-time market data. The brokerage services may include reliable and responsive execution services and priority access for trades of interest to BaoCap in managing client assets. Under any soft-dollar arrangements, a portion of client commissions will be used to pay for research and brokerage services and products that are provided directly to BaoCap to assist BaoCap in formulating investment strategies for its clients. Accordingly, obtaining services and products that are not related to providing investment services for clients through the soft-dollar arrangements may constitute a breach of fiduciary duty to clients. In order to avoid any potential breach of duties to clients, BaoCap has elected to use services and products that are within the safe harbor provided by Section 28(e) of Exchange Act. The Chief Compliance Officer will review the list of products and services provided under any soft dollar arrangements to ensure compliance with Section 28(e) of the Exchange Act.

b. In soft-dollar arrangements, a conflicting interest may be present where BaoCap has the incentives to select or recommend a broker-dealer based on its interest in receiving the research products and not based on the clients' interest in receiving most favorable execution. BaoCap adheres to its standard criteria for selecting broker-dealers, in order to prevent any such conflict of interest. Pursuant to the standard criteria, BaoCap selects broker-dealers based on the best execution concerns. Please see brokerage selection criteria described above in Item 12A.

c. In connection with any soft dollar arrangements, BaoCap may cause clients to pay more than the lowest available commission rates, which could be deemed to be a violation of their fiduciary duties to their clients, even if such additional rate is justifiable when evaluating the products and services provided to BaoCap. In order to address conflicts of interests that may arise from such arrangements, BaoCap has determined to use soft dollars to pay for research and brokerage services and products within the scope of the Section 28(e) safe harbor. The Chief Compliance Officer shall review the list of products and services paid for with soft dollars to ensure that BaoCap's use of soft dollars complies with Section 28(e) safe harbor.

d. This item is not applicable. BaoCap did not receive research products through soft-dollar arrangements within the last fiscal year.

e. This item is not applicable. BaoCap did not direct client transactions to a particular broker-dealer in return for soft-dollar benefits within the last fiscal year.

2. Brokerage for Client Referrals.

a. BaoCap does not receive client referrals from broker-dealers or third parties, and does not pay cash compensation to any broker-dealers and third parties for client referrals.

b. This item is not applicable. BaoCap did not direct any client transactions to a particular broker-dealer in return for client referrals.

3. Directed Brokerage

a. This item is not applicable. BaoCap does not routinely recommend or request that clients direct BaoCap to execute transactions through a specified broker-dealer.

b. This item is not applicable. BaoCap does not allow clients to direct transactions to a specified broker-dealer.



## B. Aggregation of Trades

Generally, BaoCap aggregates trades when it believes that it can effectively obtain best execution for client accounts by aggregating trades. It aggregates trades for all accounts for which the trades are both suitable and consistent with the respective investment advisory contracts, investment guidelines, and other agreements. BaoCap may not aggregate trades if doing so would conflict with its duty to seek best execution or the terms of the investment advisory contracts and other agreements. In the case of an aggregated order that has not been completely filled, BaoCap will determine an average execution price and then allocate securities among the accounts participating in the order. Client accounts are generally allocated such securities using a rotational allocation algorithm, which BaoCap believes to be reasonably designed to be fair to all such accounts. BaoCap may, however, increase or decrease the amount of securities allocated to one or more accounts if necessary to avoid holding odd-lots or small numbers of shares in a client account.

### Item 13. Review of Accounts

#### A. Periodic Review of Client Accounts or Financial Plans

BaoCap reviews its client accounts not less frequently than on a quarterly basis. More frequent reviews are conducted if there is a change in the buy, sell, and hold lists, portfolio securities values and client objectives, among others. BaoCap's portfolio managers and the Investment Review Committee are responsible for the review.

The Chief Compliance Officer shall, in consultation with its legal counsel, review the allocation of securities among various client accounts at least annually to ensure that no accounts are favored in the allocation process.

#### B. Additional Review of Client Accounts

BaoCap reviews its client accounts on a regular periodic basis, and also when certain factors trigger a review. Please see Item 13.A. above for details.

#### C. Reports Provided to Clients

BaoCap arranges its executing broker-dealers to provide clients with trade confirmations or credit/debit advice. In the case of separately managed accounts, clients receive a copy of all trade confirmations and credit/debit activity. In the case of its hedge fund clients, BaoCap receives copies of trade confirmations and credit/debit activity on behalf of the client. Investors in a hedge fund do not receive copies of trade and cash movement activity. Such confirmations or advice are provided promptly after completion of any securities transactions in client accounts. Clients also receive the following electronic reports, either quarterly or monthly:

- all transactions for the quarter or for the month
- current portfolio holdings
- current market environment

Clients may receive more frequent reports and additional reports depending on the needs of the clients as determined by the portfolio manager.

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

##### A. Economic Benefit from Persons Other than a Client

BaoCap does not have any arrangement where a third party provides economic benefit, such as sales awards, prizes, or other form of compensation, for services provided to its clients.

##### B. Compensation for Client Referrals

As discussed in Item 12.A.2.a., BaoCap may compensate third parties for client referrals; however, it does not currently receive client referrals from broker-dealers or third parties, and currently does not pay cash compensation to any broker-dealers or third parties for client referrals.

#### Item 15. Custody

BaoCap has made an arrangement with a qualified custodian, Interactive Brokers LLC, to send account statements to clients no less than quarterly. Clients should carefully review these statements and notify BaoCap if the statements do not accurately reflect transactions, credits, and debits in the account. Client securities are held by Interactive Brokers LLC.

Each hedge fund managed by BaoCap maintains a bank account in its own name with J.P. Morgan Chase Bank for processing subscriptions, withdrawals and expense payments.

#### Item 16. Investment Decision

BaoCap obtains consent from clients authorizing it to manage accounts with full investment discretion. BaoCap accepts new accounts or sub-advisory relationships only when it obtains full investment discretion. Prior to opening a new account or entering into sub-advisory relationships, BaoCap discusses with each client any limitations, restrictions, or prohibitions that client desires to place on the account transactions. BaoCap manages client accounts subject to such limitations, restrictions, or prohibitions.

## Item 17. Voting Client Securities

### A. Proxy Voting Policies and Procedures

#### 1. Summary of Policies and Procedures

BaoCap's policies require it to act in the best interest of its clients when exercising proxy voting authority. BaoCap analyzes the issues involved with all shareholder votes, evaluate the probable impact on corporate operations, and votes proxies in what it views to be in accordance with the best interests of its clients. BaoCap does not vote every proxy that it receives if refraining from voting is in the client's best interest under the circumstances. For example, such circumstances include when the cost of voting the proxy exceeds the expected benefit to the client, or any legal restrictions on trading would result from the exercise of a proxy. BaoCap refrains from voting when the client has expressly retained voting authority. BaoCap's clients may direct BaoCap to vote in a certain way by contacting the investment managers at the number listed on the cover of this brochure.

The Chief Compliance Officer is primarily responsible for receiving, processing, and voting proxies for securities held in client accounts. The Company may retain a third-party to coordinate voting of the proxies with respect to client securities. If so, the Chief Compliance Officer shall monitor the third-party to assure that all proxies are being properly voted and appropriate records are being retained. Clients may contact the Chief Compliance Officer during regular business hours, via email or telephone, to obtain information on how BaoCap voted such client's proxies for the past 5 years. Upon request, and where practicable, BaoCap will inform a client of how BaoCap intends to vote. In some cases, because of the controversial nature of a particular proxy, BaoCap's intended vote may not become known or available until just prior to the date on which the applicable proxy is to be voted. Under such circumstances, BaoCap will use reasonable efforts to communicate this information to the client who requests such information prior to actually voting the proxy. Additionally, if the request involves a conflict due to such client's relationship with the company that has issued the proxy, the Chief Compliance Officer will ensure adherence to the Company's proxy voting procedures. Any employee, officer or director of BaoCap receiving an inquiry directly from a company holding a proxy contest will notify the Chief Compliance Officer.

Clients may request a copy of proxy voting policies and procedures.

#### 2. Conflicts of Interests

Through consultation with legal counsel, the Chief Compliance Officer assesses potential material conflicts of interest with respect to proxy voting. Such identification process includes a review of the relationship between BaoCap and the issuer of the securities subject to proxy voting, and any of the issuer's affiliates. The review is conducted to determine whether the issuer is BaoCap's client or has some other relationship with BaoCap, its principals or employees, or any client of BaoCap.

The Chief Compliance Officer shall presume a conflict of interest to exist whenever BaoCap or any of its partner, member, affiliate, subsidiary or employee of BaoCap has a personal or

business interest in the outcome of a particular matter before shareholders. A conflict would arise, for example, in the following cases:

- BaoCap has a business, financial, or personal relationship with participants in a proxy contest or candidates for corporate directorships;
- a current client is affiliated with a company soliciting proxies, and has communicated its view to BaoCap on an impending proxy vote;
- BaoCap has identified a personal or business interest either in a company soliciting proxies or in the outcome of a shareholder vote; or
- a third-party with an interest in the outcome of a shareholder vote has attempted to influence BaoCap.

A presumption of a conflict of interest does not necessarily prevent BaoCap from voting proxies related to clients' securities. If the Chief Compliance Officer identifies or suspects conflicting interests between BaoCap and its clients, the Chief Compliance Officer will promptly disclose such conflicts of interest to the affected clients in writing and obtain the clients' prior written consent before exercising any proxy voting authority. If the Chief Compliance Officer is unable to contact a client or otherwise obtain written consent by the time the vote of the proxy is due, then BaoCap shall not vote the proxy. If the Chief Compliance Officer, in consultation with the senior management and the legal counsel, deems that the potential conflicts of interests are immaterial, then BaoCap will vote proxies relating to client securities.

#### B. No Authority to Vote Client Securities

This item is not applicable. BaoCap has authority to vote proxies relating to client securities; however, BaoCap refrains from voting when the client, on an individual basis, has expressly retained voting authority.

## Item 18. Financial Information

### A. Prepayment of Fees

BaoCap does not require prepayment of more than \$500 in fees per client, six months or more in advance.

### B. Material Financial Conditions

BaoCap has full discretionary investment authority over clients' accounts [and generally qualifies for an exemption of having custody of client funds or securities] with respect to hedge funds. At this time, BaoCap there are no known or anticipated material events that may impair its ability to meet contractual commitments to clients.

### C. Bankruptcy

BaoCap has not been the subject of a bankruptcy petition at any time.



## Item 19. Requirements for State-Registered Advisers

Immediately following submission of its annual ADV filing, BaoCap expects to register as an investment adviser with the State of California.

Must answer the following questions:

A. Identify each of your principal executive officers and *management persons*, and describe their formal education and business background. Each management person listed below is subject to potential conflicts of interest identified above as well as in the offering documents of the partnerships and advisory contracts with clients. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item.

- Dr. Burton G. Malkiel, Chairman of the Board of Directors
  - Kevin T. Carter, Chief Executive Officer and Chief Investment Strategist
  - Mark G. Adams, Director of Research and Chief Compliance Officer
  - Jonathan J. Masse, Senior Portfolio Manager
- 
- Dr. Burton G. Malkiel, Chairman of the Board of Directors  
Year of Birth: 1932

Dr. Malkiel is the Chemical Bank Chairman's Professor of Economics at Princeton University and the author of the widely read investment book, "A Random Walk Down Wall Street." He has long held professorships in economics at Princeton where he was also chairman of the Economics Department. He serves on the boards of directors of The Vanguard Group Europe, Genmab A/S and Theravance, Inc. and on the investment committees of Active Investment Advisers and the American Philosophic Society. He is the Chairman of the New Products Committee of the American Stock Exchange, and has served as Chairman of the Investment Committee of Prudential Financial and Chairman of the Pension Fund Committee of Southern New England Telecommunications. He holds B.A. and MBA degrees from Harvard and a Ph.D. degree from Princeton University.

- Kevin T. Carter, Chief Executive Officer and Chief Investment Strategist  
Year of Birth: 1969

Prior to founding BaoCap, Mr. Carter was the Founder, Chairman and Chief Executive Officer of Active Index Advisers ("AIA"), an investment management firm specializing in index and ETF based investment strategies. Following AIA's acquisition by IXIS Asset Management in December 2004, Mr. Carter stayed on to manage the index and ETF investment strategies until October 2006. Currently, Mr. Carter was also the Chief Executive Officer of BaoCap's affiliate, AlphaShares, which conducts ETF and securities index business. Mr. Carter is also managing member of an inactive affiliate hedge fund adviser, Big Tree Capital. Mr. Carter received a BA in Economics from the University of Arizona.

- Mark G. Adams, Director of Research  
Year of Birth: 1957

Mr. Adams was a Senior Portfolio Manager for Active Investment Advisers ("Active Investment"), an investment management firm specializing in index and ETF based investment strategies. At Active Investment, Mr. Adams was the portfolio manager of the Active China Strategy and Active Managed ETF Portfolios. Prior to working at Active Investment, Mr. Adams was Chief Operating Officer of investment consulting firm Barra Rogers Casey. Currently, Mr. Adams was also the Chief Compliance Officer of BaoCap's affiliate investment adviser AlphaShares, which conducts ETF and securities index business. Mr. Adams holds the Chartered Financial Analyst ("CFA")<sup>1</sup> charter. Mr. Adams received a BS in Economics from the University of Pennsylvania.

- Jonathan J. Masse, Senior Portfolio Manager  
Year of Birth: 1971

Mr. Masse served as an Institutional Portfolio Manager and Strategist for Barclays Global Investors where his team managed over \$300 billion of assets. He has managed equity portfolios benchmarked to nearly all emerging markets including over \$8.9 billion in Chinese equities. Prior to joining Barclays Global Investors, Mr. Masse was an active options trader and market maker. His experience includes options trading and market making on the Pacific Stock Exchange, Chicago Board Options Exchange, and Chicago Board of Trade with Stafford Trading, the Timber Hill Group, and Cooper Neff/BNP respectively. Mr. Masse was also the Senior Portfolio Manager of BaoCap's affiliate AlphaShares, which conducts ETF and securities index business. He holds the CFA charter and teaches the "Portfolio Management in a Global Context" class for the San Francisco Analyst Society's CFA Level III Review program. Mr. Masse has an MBA degree from the University of Santa Clara, and received a BS in Finance from Boston College.

B. Describe any business in which you are actively engaged (other than giving investment advice) and the approximate amount of time spent on that business. If you have supplied this information elsewhere in your Form ADV, you do not need to repeat it in response to this Item.

---

<sup>1</sup> CFA is a professional designation offered by the CFA Institute to individuals in the financial and investment management fields. In order to earn the CFA designation, the individuals must complete three levels of examinations and have at least 4 years of qualified work experience in the investment management field. The CFA curriculum includes a broad spectrum of topics relating to investment management including ethics, quantitative methods, economics, corporate finance, security analysis, financial reporting and analysis, and portfolio management.

## Form ADV: Part 2A

Each of the supervised persons listed below are engaged in outside business activities, in addition to BaoCap's business, which represent more than 10% of their work hours and income. These outside business activities may result in conflicts of interest whereby the supervised person may have an incentive to spend a majority of his time on other business activities, which may negatively impact the performance of BaoCap's clients. Such substantial outside business activities for each individual are as follows:

- Dr. Burton G. Malkiel

Dr. Malkiel is a tenured professor of economics at Princeton University and the author of the widely read investment book, "A Random Walk Down Wall Street." Dr. Malkiel serves on the board of directors of The Vanguard Group Europe, Genmab A/S and Theravance, Inc. and on the investment committees of Active Investment Advisers and the American Philosophic Society. He is the Chairman of the New Products Committee of the American Stock Exchange.

- Kevin T. Carter

Mr. Carter is the managing member of an affiliate hedge fund manager, Big Tree Capital, which currently does not advise client assets, nor is it attempting to raise assets at this time.

- Jonathan J. Masse

Mr. Masse teaches the "Portfolio Management in a Global Context" class for the San Francisco Analyst Society's CFA Level III Review program.

C. In addition to the description of your fees in response to Item 5 of Part 2A, if you or a *supervised person* are compensated for advisory services with *performance-based fees*, explain how these fees will be calculated. Disclose specifically that performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the *client*.

BaoCap calculates the fees for its investment advisory services based on the percentage of assets under management. The fees are negotiable between clients and BaoCap. Generally, BaoCap charges a quarterly management fee in advance ranging from 0.125% to 0.25% (0.5% to 1% per annum) of the net asset value of the assets under management. BaoCap may at its sole discretion waive or reduce the fee.

For certain accounts, BaoCap may assess performance based fees. The performance based fees currently charged range from 0% to 10% of the profits generated in the clients' accounts. If applicable, performance based fees are charged at the end of each calendar quarter or upon withdrawal from a hedge fund or proprietary account. BaoCap will carry forward any losses

from any previous quarters when it calculates the profits. This means that the performance based fees will be assessed only if the profit exceeds all previous losses in the client accounts.

Accounts charging performance based fees present a conflict of interest for BaoCap's investor adviser representatives. The performance based fees create an incentive for BaoCap investor adviser representatives to take disproportionately higher risks in order to generate a higher incentive allocation. Additionally, BaoCap may have an incentive to over-allocate certain trades with higher expected return to accounts paying performance based fees. As such, BaoCap has implemented procedures and policies to avoid any action that could result in an unfair or inequitable disadvantage to any client account or unfair or inequitable advantage to any client account that is charged performance based fees. Generally, BaoCap follows the allocation procedure below to avoid such conflict of interests:

- *pro rata* among all accounts based upon the respective sizes of the participating client accounts; or
- based upon a uniform target percentage holding across all participating client accounts, unless there are limit orders.

Performance based fees are calculated relative to a high water mark, which prevents the General Partner from receiving the performance based fee until past losses are restored. However, there is no guarantee that prior losses will ever be recovered. Also, the performance based fee is calculated on all gains, whether realized or unrealized. A performance based fee may only be assessed when cumulative profits exceed all previous losses in the account. Net losses are carried forward until such time that cumulative profits exceed all carried forward losses. The performance based fee is then assessed based on the difference between cumulative profits and carried forward loss. Performance based fees are charged upon withdrawal or at the end of each calendar quarter.

D. If you or a *management person* has been *involved* in one of the events listed below, disclose all material facts regarding the event.

BaoCap's investment adviser representatives do not have legal or disciplinary events, such as a criminal or civil action at court, an administrative proceeding before the SEC or other federal or state regulatory agencies or foreign financial regulatory authorities, or proceedings before a self-regulatory organization.

E. In addition to any relationship or arrangement described in response to Item 10.C. of Part 2A, describe any relationship or arrangement that you or any of your *management persons* have with any issuer of securities that is not listed in Item 10.C. of Part 2A.

Management persons of BaoCap have no relationship or arrangements with issuers of securities that have not already been listed in Item 10.C. of Part 2A.

**PART 2B.**

Item 1. Cover Page

This brochure supplement provides information about **Mark Adams** that supplements the Baochuan Capital Management, LLC (“BaoCap”) brochure. You should have received a copy of that brochure. Please contact Mark Adams at (925) 930-9498 or at madams@baocap.com if you have any questions regarding this supplemental brochure or if you did not receive our BaoCap brochure. The information in this supplemental brochure has not been approved or verified by the California Department of Corporations or by any other regulatory agency.

Mr. Adams is a registered investment adviser with the State of California. The registration with the State of California simply means that Mr. Adams is authorized to provide investment advisory services, and does not imply or indicate a certain level of skills or training.

Additional information about Mark Adams is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Business Address:

1515 Oakland Boulevard, Suite 280  
Walnut Creek, CA 94596-8402

Contact Information:

Telephone - (925) 930-9498  
Facsimile - (925) 930-6992

Website:

[www.baocap.com](http://www.baocap.com)

## Item 2. Educational Background and Business Experience

Mark Adams was born April 7, 1957 in Pennsylvania. Mr. Adams received a BS in Economics from the University of Pennsylvania. Prior to working at BaoCap, Mr. Adams was a Senior Portfolio Manager for Active Investment Advisers ("AIA"), an investment management firm specializing in index and ETF based investment strategies. At AIA, Mr. Adams was the portfolio manager of the Active China Strategy and Active Managed ETF Portfolios. Prior to working at AIA, Mr. Adams was Chief Operating Officer of investment consulting firm Barra Rogers Casey. Currently, Mr. Adams was also the Chief Compliance Officer of BaoCap's affiliate investment adviser AlphaShares, which managed ETF and securities index business.

Mr. Adams retains the professional designation of Chartered Financial Analyst ("CFA"). In order to earn the CFA designation, individuals must complete three levels of examinations and have at least 4 years of qualified work experience in the investment management field. The CFA curriculum includes a broad spectrum of topics relating to investment management including ethics, quantitative methods, economics, corporate finance, security analysis, financial reporting and analysis, and portfolio management.

Item 3. Disciplinary Information

Mr. Adams has no disciplinary history such as criminal or civil actions in courts, administrative proceedings of the Securities and Exchange Commission (“SEC”) or other federal or state regulatory agencies, or proceedings with self regulatory organizations.

Item 4. Other Business Activities

Mr. Adams is not actively engaged in other investment-related business or occupation with any other firm besides BaoCap.



Item 5. Additional Compensation

Mr. Adams does not receive additional economic benefits from providing advisory services to other individuals or firms.

Item 6. Supervision

Mr. Adams is the acting Chief Compliance Officer for BaoCap. Mr. Adams' investment advisory activities are monitored by BaoCap's CEO, Kevin Carter. As such, Mr. Adams engages in self reporting of any activities which may pose a potential conflict of interest to BaoCap. Mr. Adams is required to report any outside economic benefits or advisory services to the other partners of BaoCap within 30 days.

Item 7. Requirements for State Registered Advisers

Mr. Adams has not been found liable for any claims in arbitration, civil court, by self-regulatory organizations or other any other administrative proceedings. Furthermore, Mr. Adams has not now nor ever been subject to a bankruptcy petition.

**PART 2B.**

Item 1. Cover Page

This brochure supplement provides information about **Kevin Carter** that supplements the Baochuan Capital Management, LLC (“BaoCap”) brochure. You should have received a copy of that brochure. Please contact our Chief Compliance Officer Mark Adams at (925) 930-9498 or at [madams@baocap.com](mailto:madams@baocap.com) if you have any questions regarding this supplemental brochure or if you did not receive our BaoCap brochure. The information in this supplemental brochure has not been approved or verified by the California Department of Corporations or by any other regulatory agency.

Kevin Carter is a registered investment adviser with the State of California. The registration with the State of California simply means that Kevin Carter is authorized to provide investment advisory services, and does not imply or indicate a certain level of skills or training.

Additional information about Kevin Carter is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Business Address:**

1515 Oakland Boulevard, Suite 280  
Walnut Creek, CA 94596-8402

**Contact Information:**

Telephone - (925) 930-9498  
Facsimile - (925) 930-6992

**Website:**

[www.baocap.com](http://www.baocap.com)

Item 2. Educational Background and Business Experience

Kevin T. Carter was born on October 3, 1969 in Walnut Creek, California. Mr. Carter received a BA in Economics from the University of Arizona. Prior to founding BaoCap, Mr. Carter was the Founder, Chairman and Chief Executive Officer of Active Index Advisers (“AIA”), an investment management firm specializing in index and ETF based investment strategies. Following AIA's acquisition by IXIS Asset Management in December 2004, Mr. Carter stayed on to manage the index and ETF investment strategies until October 2006. Currently, Mr. Carter is also the Chief Executive Officer of BaoCap's affiliate, AlphaShares, which conducts ETF and securities index business. Mr. Carter is also managing member of an inactive affiliate hedge fund adviser, Big Tree Capital.

Mr. Carter retains the Series 63 and Series 65 licenses issued under FINRA. In order to qualify for these licenses, Mr. Carter passed an examination demonstrating a minimum level of knowledge of securities laws and regulations.

Item 3. Disciplinary Information

Mr. Carter has no disciplinary history such as criminal or civil actions in courts, administrative proceedings of the Securities and Exchange Commission (“SEC”) or other federal or state regulatory agencies, or proceedings with self regulatory organizations.

Item 4. Other Business Activities

Mr. Carter remains the managing member of the inactive affiliate hedge fund adviser Big Tree Capital, LLC. The ongoing relationship with Big Tree poses a potential conflict of interest to BaoCap's clients. However, Mr. Carter is not currently engaged in advising other client assets for Big Tree; moreover, Big Tree has no clients at this time. As such, BaoCap is not concerned of any unfair disadvantages to BaoCap's clients. If Mr. Carter does begin advising other clients in the named businesses, or any other businesses, an amendment indicating the change will be filed within 30 days of any action and will be promptly sent to BaoCap clients thereafter.

Item 5. Additional Compensation

Mr. Carter does not receive additional economic benefits from providing advisory services to other individuals or firms.



Item 6. Supervision

Mr. Carter's investment advisory activities are monitored by BaoCap's Chief Compliance Officer, Mark Adams. Mr. Carter also engages in self reporting of any activities which may pose a potential conflict of interest to BaoCap and its clients. Mr. Carter is required to report any outside economic benefits or advisory services to the Chief Compliance Officer within 30 days.

Item 7. Requirements for State Registered Advisers

Mr. Carter has not been found liable for claims in arbitration, civil court, by self-regulatory organizations or other any other administrative proceedings. Furthermore, Mr. Carter has not now nor ever been subject to a bankruptcy petition.

**PART 2B.**

Item 1. Cover Page

This brochure supplement provides information about **Jonathan Masse** that supplements the Baochuan Capital Management, LLC (“BaoCap”) brochure. You should have received a copy of that brochure. Please contact our Chief Compliance Officer Mark Adams at (925) 930-9498 or at [madams@baocap.com](mailto:madams@baocap.com) if you have any questions regarding this supplemental brochure or if you did not receive our BaoCap brochure. The information in this supplemental brochure has not been approved or verified by the California Department of Corporations or by any other regulatory agency.

Mr. Masse is a broker-dealer currently in the process of registering as an investment adviser with the State of California. The registration with the State of California simply means that Mr. Masse is authorized to provide investment advisory services, and does not imply or indicate a certain level of skills or training.

Additional information about Jonathan Masse is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Business Address:**

1515 Oakland Boulevard, Suite 280  
Walnut Creek, CA 94596-8402

**Contact Information:**

Telephone - (925) 930-9498  
Facsimile - (925) 930-6992

**Website:**

[www.baocap.com](http://www.baocap.com)

## Item 2. Educational Background and Business Experience

Jonathan Masse was born on March 19, 1971 in Illinois. Mr. Masse received a BS in Finance from Boston College and an MBA from the University of Santa Clara. Prior to working at BaoCap, Mr. Masse served as an Institutional Portfolio Manager and Strategist for Barclays Global Investors where his team managed over \$300 billion of assets. He has managed equity portfolios benchmarked to nearly all emerging markets including over \$8.9 billion in Chinese equities. Prior to joining Barclays Global Investors, Mr. Masse was an active options trader and market maker. His experience includes options trading and market making on the Pacific Stock Exchange, Chicago Board Options Exchange, and Chicago Board of Trade with Stafford Trading, the Timber Hill Group, and Cooper Neff/BNP respectively. Mr. Masse was also the Senior Portfolio Manager of BaoCap's affiliate AlphaShares, which conducted ETF and securities index business.

Mr. Masse holds the Series 3, Series 4, Series 7 and Series 63 licenses issued under FINRA. In order to qualify for these licenses, Mr. Masse passed an examination for each license demonstrating a minimum level of knowledge of securities laws and regulations.

Mr. Masse retains the professional designation of Chartered Financial Analyst (“CFA”). In order to earn the CFA designation, the individuals must complete three levels of examinations and have at least 4 years of qualified work experience in the investment management field. The CFA curriculum includes a broad spectrum of topics relating to investment management including ethics, quantitative methods, economics, corporate finance, security analysis, financial reporting and analysis, and portfolio management.

Item 3. Disciplinary Information

Mr. Masse has no disciplinary history such as criminal or civil actions in courts, administrative proceedings of the Securities and Exchange Commission (“SEC”) or other federal or state regulatory agencies, or proceedings with self regulatory organizations.

Item 4. Other Business Activities

Mr. Masse holds his broker licenses with ThinkEquity; however, he is not active with that firm. If Mr. Masse does begin advising other clients an amendment indicating the change will be filed within 30 days of any action and will be promptly sent to BaoCap clients thereafter

Item 5. Additional Compensation

Mr. Masse does not receive additional economic benefits from providing advisory services to other individuals or firms.

Item 6. Supervision

Mr. Masse's investment advisory activities are monitored by BaoCap's Chief Compliance Officer, Mark Adams. Mr. Masse also engages in self reporting of any activities which may pose a potential conflict of interest to BaoCap. Mr. Masse is required to report any outside economic benefits or advisory services to the Chief Compliance Officer within 30 days.



Item 7. Requirements for State Registered Advisers

Mr. Masse has not been found liable for claims in arbitration, civil court, by self-regulatory organizations or other any other administrative proceedings. Furthermore, Mr. Masse has not now nor ever been subject to a bankruptcy petition.