

Fundamental Advisors LP

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This Brochure provides information about the qualifications and business practices of Fundamental Advisors LP (“Fundamental”). If you have any questions about the contents of this Brochure, please contact us at (212) 205-5000. 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.

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

Additional information about Fundamental also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This is Fundamental’s first Brochure prepared in connection with its application for registration as an investment adviser with the SEC.

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Item 4 – Advisory Business

Fundamental Advisors LP (“Fundamental,” “we” or “us”) acts as the discretionary investment adviser to U.S. and non-U.S. private, closed-end investment vehicles that we or a related entity sponsors (“fund clients”). We do not advise, and are not currently seeking, fund clients other than our own sponsored funds, but we may in the future or from time to time agree to advise other institutional investors and high net worth individuals through separate accounts following investment strategies similar to our fund clients.

Fundamental’s core investment strategy targets controlling interests in municipal revenue bonds as well as assets eligible for municipal financing and other special situation opportunities. The securities we consider for investment typically will be in default, in violation or near violation of debt covenants, or will be secured by assets/businesses in need of restructuring or rehabilitation. We also invest client funds in exposure to government general obligation bonds, revenue bonds, or other securities where there is no control element but for which we believe a compelling investment opportunity exists both through direct holdings as well as through derivatives. Fundamental also invests in equity securities related to the core investment strategy. Fundamental’s strategy also uses over-the-counter derivatives, such as total return swaps, interest rate swaps and credit default swaps where we believe these instruments provide a desired exposure and to hedge exposure and risk, and we may in the future access the futures markets for these purposes. The investment objectives, strategies, fees and risks of each fund client and other material information, are set forth more fully in the fund client’s confidential offering documents, which are available to investors and qualified prospective investors with whom Fundamental or its agents have a pre-existing substantive relationship.

Fundamental believes its versatile strategy uniquely positions the fund clients to benefit from increasing, attractive opportunities arising from evolving market dynamics in the municipal bond market.

Fundamental is a limited partnership formed in Delaware in 2007. Fundamental Advisors Group LLC, also formed in Delaware in 2007, is Fundamental’s general partner as well as the general partner of Fundamental Advisors Holdings L.P., a Delaware limited partnership which is Fundamental’s principal owner. Laurence Gottlieb acts as Fundamental’s Chairman and Chief Executive Officer and is also the managing member of the general partner. Mr. Gottlieb is also indirectly Fundamental’s principal owner as the sole limited partner in Fundamental Advisors Holdings L.P. Mr. Gottlieb is assisted by a senior management team and senior investment team.

As of January 31, 2012, Fundamental had \$501,000,000 of regulatory assets under management.

Item 5 – Fees and Compensation

All of our fund clients currently are investment vehicles excepted from the definition of investment company by Section 3(c)(7) of the Investment Company Act of 1940 and we would expect any new fund clients to be “qualified purchasers” or private funds with all “qualified purchaser” investors. Our fees and other compensation are set forth in the agreements between Fundamental and our fund clients and are disclosed to investors through the offering documents for the vehicles. These generally consist of a flat percentage of capital commitments or invested capital (depending on the lifecycle of the relevant fund client) and a carried interest to Fundamental or a related person in the profits of the fund client.

The fund client’s administrator calculates the management fees in the place of the general partners of the fund clients and Fundamental causes fund clients to pay them to the general partner or to Fundamental. Our management fees are fixed based either on committed capital or invested capital as set forth in the relevant fund client documents and are not refundable unless the general partners are removed as described in the fund client’s offering documents. In general, investors in the fund clients are entitled to a return of their contributed capital plus a preferred return before Fundamental or its related persons are entitled to any carried interest.

Fundamental applies any fees (other than fees to Fundamental Asset Management LLC (“FAM”) for operation of the portfolio investments described below) it or its related persons receive from third parties related to investments of its fund clients, such as directors’ fees, advisory, monitoring, transaction, break-up or similar fees to offset the management fees. To the extent the amount of such transaction fees exceeds the amount of management fees expected from the relevant fund client over the following twelve-month period, Fundamental pays such excess to the applicable fund client.

Each fund client pays its own organizational and offering expenses incurred in connection with the formation and offering of interests and any excess over an agreed cap is used to offset Fundamental’s management fee. The fund clients also bear all costs of their investments and expenses related to the investments, such as brokerage, research, borrowing costs, transaction expenses, indemnification expenses of the fund client, investor communication expenses, all unreimbursed out-of-pocket expenses of the fund client relating to unconsummated transactions (including legal, accounting and consulting expenses), fees relating to audit services, the preparation of financial and tax reports, portfolio valuations and tax returns of the fund client, interest on permitted borrowings made by the fund client, the costs of any litigation, director or officer liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the fund client, liquidating expenses, any taxes, fees or other governmental charges levied against the fund client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the fund client and all other expenses of the fund client, but excluding expenses to be paid by its general partner, FAM or Fundamental. To

the extent that expenses are incurred in connection with an investment in which a fund client, a parallel fund, an alternative investment vehicle and/or another Fundamental client participate, such costs incurred by a fund client and such client generally will be borne pro rata based on the amount invested by each entity. Each fund client is obligated to reimburse Fundamental and its affiliates or any investor for any such costs advanced by it on behalf of the fund client.

One of these investment expenses is the fees of FAM, a Delaware limited liability company formed by Fundamental in 2009 to provide monitoring and supervisory services for various fund client holdings. FAM's responsibilities mainly include analyzing an asset's physical condition and operating performance, supervising property managers, and reviewing and overseeing the execution of capital improvement plans. To minimize the potential conflict of interest created by this arrangement, to the extent FAM's fees exceed its operating costs, a pro rata share of such excess fees will be used to reduce Fundamental's management fee from the applicable client.

Item 6 – Performance-Based Fees and Side-By-Side Management

Fundamental or its related persons have a carried interest in each fund client and may also participate in parallel vehicles in which investors may co-invest with the fund clients. Further, although Fundamental generally agrees with each fund client not to sponsor any additional fund with substantially similar investment strategies until the capital commitments for the existing fund client are at least 75% invested (although may not be deployed), there are times when Fundamental manages more than one fund client that are in their investment periods. To the extent the carried interest in one fund client is greater or the overall performance of one fund client is better than another, Fundamental may have an incentive to allocate promising investments to the fund client that would result in a greater carried interest to Fundamental and its related persons. The level of anticipated carried interest is not a consideration in allocation decisions.

Fundamental has sole discretion to allocate investment opportunities among the fund clients and no particular fund client has a priority claim on any type of investment. Where Fundamental determines that more than one fund client should participate in a particular investment, it will allocate such investment among them in a way it determines is appropriate bearing in mind, among other things, the size, investment objectives, risk tolerance, return targets, diversification considerations, eligibility to participate in such investment, available capital, permissible and preferred asset classes, and liquidity needs of each fund client.

Item 7 – Types of Clients

Fundamental currently manages the assets of U.S. and non-U.S. privately offered closed-end pooled investment vehicles for which its related persons act as general partner or sponsor, as well as certain parallel and alternative investment vehicles. The funds clients' structures most resembles those of "private equity funds" and would be considered "private funds" for purposes of the Investment Advisers Act of 1940. If the opportunity arises, Fundamental may accept investment mandates from institutional investors to manage separate accounts.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Fundamental principally invests its fund clients' assets in the highly-specialized distressed, revenue bond segment of the municipal securities market. Fundamental intends to opportunistically acquire securities with special circumstances to gain controlling positions in smaller-sized distressed or defaulted municipal bond issuances, along with related securities and underlying assets, and then seek to generate value for clients by actively managing and rehabilitating the assets and businesses underlying these securities. Fundamental also invests in equity securities related to the core investment strategy. Fundamental's strategy also uses over-the-counter derivatives, such as total return swaps, interest rate swaps and credit default swaps where we believe these instruments provide a desired exposure and to hedge exposure and risk, and we may in the future access the futures markets for these purposes.

Fundamental intends to utilize a multi-step approach in implementing its investment strategy, that consists of: (i) sourcing investment opportunities, (ii) performing extensive due diligence on prospective investments (mindful of viable exit strategies), (iii) assessing value, (iv) actively managing the investment, and (v) evaluating appropriate exit alternatives.

Fundamental targets industries in which the investment professionals of Fundamental have prior experience and relies on their strong network of relationships.

Fundamental's underwriting and investment procedures attempt to identify securities for investment that typically have floor values equal to the hard assets securing such securities, which we believe minimizes investment risk and provides favorable risk/reward characteristics. Fundamental seeks to minimize concentration risk by diversifying fund clients' portfolios among sectors and geographies on the basis of absolute capital committed.

Fundamental records, categorizes and tracks each potential investment in a proprietary intra-net database. Once an opportunity is identified and approved to proceed to the investment analysis stage, Fundamental will devote significant resources to up-front due diligence, among other things. Such up-front due diligence generally includes: a thorough review and analysis of financial statements, on-site property visits, meetings with management and local industry professionals, engaging third-party professionals to aid in valuation, sculpting appropriate exit strategies, seeking strategic input from industry consultants, and engaging attorneys to review bond or loan documents.

Once a transaction has materialized, Fundamental aims to drive value in the underlying assets through, among other things, rehabilitation, restructuring, bankruptcy or recapitalization and the overhaul of the management or marketing function related to the underlying asset. To this end, Fundamental will leverage its experience along with extensive relationships with seasoned, third-party, industry professionals and affiliates of Fundamental. During the investment hold period, Fundamental conducts frequent on-site visits to assess the condition of the asset, participates in strategic and tactical meetings with management, performs ongoing reviews of financial statements, and assesses the external factors impacting the underlying assets/businesses. As appropriate, Fundamental will actively change management, engage consultants or other advisors, or make capital improvements to assets. This active monitoring is intended to allow Fundamental to manage its clients' investments to produce attractive returns.

Material Risks

Investing in debt and the municipal bond market involves risk of loss that the fund clients should be prepared to bear. An investment in a fund client involves a high degree of risk, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in such fund client. There can be no assurance that the investment objective of any fund client will be achieved, that any fund client will otherwise be able to successfully carry out its investment program, or that an investor will receive a return of its capital contributed to any fund client. A brief explanation of the material risks associated with Fundamental's principal investment strategy and methods of analysis follows. Additional risk factors are set forth in the offering documents for each fund client provided to investors and potential investors.

- **Distressed Municipal Debt Investing Risks.** The assets underlying municipal debt will typically have significant risks as a result of business, economic or legal uncertainties. They likely will be experiencing financial or operational difficulties or be otherwise out of favor. Such securities are typically illiquid and may be considered speculative. The ability of Fundamental to manage and rehabilitate the assets underlying such securities could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, or specific developments related to such underlying assets. Any such underlying assets that are operating in workout or bankruptcy modes present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks. As part of Fundamental's strategy to restructure and rehabilitate the assets underlying the municipal bonds in which the fund clients invest, the fund clients may hold various types of other securities, including secured and unsecured notes.
- **Municipal Revenue Bond Risks.** Revenue bonds are municipal bonds that finance income-producing projects and are payable only from the revenue derived from a particular project, facility or specific revenue source. Such bonds are typically issued by or on behalf of the political subdivisions, agencies or instrumentalities of states, territories and possessions of the United States and the District of Columbia to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, water and sewer systems and highways. In addition, certain types of industrial development bonds are issued by or on behalf of public authorities to obtain

funds for many types of local, privately operated facilities (such debt instruments are considered municipal obligations if the interest paid on them is exempt from federal income tax). Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer's other resources. Municipal revenue bonds carry a higher default risk than general obligation bonds. Not only are they not backed by the full faith and credit of a municipality, but the income from the projects funded by revenue bonds cannot be predicted with certainty. If the projects do not produce enough revenue, the bonds may default. The success of revenue bonds ultimately depends on the projects' ability to produce revenue. The bonds in which Fundamental expects to invest will typically be experiencing financial or operational difficulties, which heightens the risk that sufficient revenue will not be generated.

- Distressed Securities Risks; Illiquidity. Distressed bonds generally are bonds of issuers that have either defaulted or appear to be at a heightened risk of doing so. The assets underlying such municipal debt will typically have significant risks as a result of business, economic or legal uncertainties. Such portfolio investments are subject to greater risks with respect to the issuing entity and to greater market fluctuations than certain higher rated municipal securities. The market values of such bonds tend to be more sensitive to economic conditions than are higher rated securities. Because there is not an established secondary market for many of these securities, Fundamental anticipates that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market may have an adverse impact on market price and Fundamental's ability to dispose of particular bonds when necessary to meet a fund client's liquidity needs or in response to a specific economic event such as a deterioration in the condition or prospects of the project for which such bonds were issued. The lack of a liquid secondary market for certain securities also may make it more difficult for Fundamental to obtain accurate market quotations for purposes of determining the value of a prospective investment or valuing a fund client's portfolio.
- Restructuring Risks. Certain fund clients expect to be involved in restructurings involving underlying projects that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such projects to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject fund clients to certain additional potential liabilities which may exceed the value of fund clients' original investment. As part of Fundamental's strategy to restructure and rehabilitate the assets underlying the municipal bonds in which fund clients invest, fund clients may hold various types of securities, including secured and unsecured notes. As a holder of notes, fund clients are subject to the risk that the issuer of the note will default in the payment of the principal and/or interest on the instrument.
- Risks in Effecting Operating Improvements. The success of the fund client's investment strategy will depend, in part, on the ability of Fundamental to restructure and effect improvements in the operations of a portfolio investment. The activity of identifying and implementing restructuring programs and operating improvements with respect to portfolio investments entails a high degree of uncertainty. There can be no assurance that Fundamental will be able to successfully identify and implement such restructuring programs and improvements.

- Uncertainty of Financial Projections. Fundamental will generally determine the necessary restructuring and rehabilitation for portfolio investments on the basis of financial projections and other information provided by such portfolio investments. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.
- Bankruptcy Risks. Fundamental expects to invest in municipal bonds whose underlying projects may be operating in workout or bankruptcy modes, or may enter into bankruptcy proceedings following investment by certain fund clients. There are a number of significant risks inherent in the bankruptcy process.

As part of Fundamental's efforts to rehabilitate the assets underlying the fund client's portfolio investments, Fundamental may seek to sponsor certain sales under the U.S. Bankruptcy Code which permit a debtor in bankruptcy to sell its assets outside the ordinary course of business. Such sales typically can be accomplished on an expedited basis and prior to proposing a plan of reorganization or liquidation. Although such sales can be an effective way to maximize the going concern value of a project's assets, and thereby increase the value of the fund client's investment, such sales must take place within the context of a bankruptcy proceeding and are subject to the bankruptcy rules and bankruptcy court approval. There is no guarantee that such sales can be successfully arranged by Fundamental to increase the value of the assets underlying the fund clients' portfolio investments.

- Control Investments. Certain fund clients may make control investments. These investments could expose a fund client to risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristics of business operations may be ignored. Certain fund clients may also be exposed to risk in connection with the disposition of these investments.
- Legislation Risks. From time to time, proposals have been introduced before the United States Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on tax-exempt bonds, and similar proposals may be introduced in the future. It is not possible to determine what effects the adoption of such proposals could have on the availability of municipal securities for investment by fund clients and the value of fund clients' investment portfolios. In addition, each industry in which Fundamental determines to invest is exposed to legislative risks that are particular to each such industry.
- Identification of Investments; Competition. Fundamental's task of identifying, completing and realizing attractive client investment opportunities is difficult and involves a high degree of uncertainty. Investors in fund clients are relying on the skill of Fundamental to identify and successfully close on investment opportunities. The availability of investment opportunities generally will be subject to market conditions as well as the prevailing regulatory or political climate. Fund clients will be competing for investments with other financial institutions and other investors. Fundamental expects that competition for appropriate investment opportunities may increase, which could reduce the number of

investment opportunities available to fund clients and adversely affect the terms upon which investments can be made.

- Limited Number of Investments. Fund clients are expected to make only a limited number of investments, and as a consequence, the aggregate return on certain fund client's investments may be substantially adversely affected by the unfavorable performance of even a single fund client investment. The value of an interest in a fund client may be more susceptible to any single economic, political or regulatory event than interests in a more diversified fund.
- Long-Term Investments. Investment in a fund client requires a long-term commitment with no certainty of return. Many of the investments of fund clients will be highly illiquid, and there can be no assurance that a fund client will be able to realize on such investments in a timely manner. Although investments by fund clients may occasionally generate some current income, the return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of any investment.
- Risks of Investments. The types of investments contemplated by the fund clients are subject to various risks, particularly the risk that the fund clients will be unable to dispose of their investments by sale or other means at attractive prices or will otherwise be unable to complete any exit strategy. These risks include changes in the financial condition or prospects of the assets underlying the bonds in which the fund clients invest. The fund clients will generally not be able to sell the securities of portfolio investments publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases the fund clients may be prohibited by contract or regulatory reasons from selling certain securities for a period of time. To the extent that there is no liquid trading market for an investment, the fund clients may be unable to liquidate that investment or may be unable to do so at a profit. Moreover there can be no assurances that private purchasers for the fund client's investments will be found.
- Leverage. Fund clients may invest in portfolio investments with leveraged capital structures and Fundamental and/or related persons of Fundamental will seek to use leverage in a manner it believes is prudent. Use of leverage is a speculative investment technique and involves certain risks to investors in fund clients. The use of leverage creates an opportunity for increased income and gains to investors but also increases the risk of loss of capital. To the extent that any investment is made in a portfolio investment with a leveraged capital structure, such investment will be subject to increased exposure to adverse economic factors such as a significant rise in interest rates, a severe downturn in the economy, or deterioration in the condition of such portfolio investment or its industry. In the event that such a portfolio investment is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of a fund client's investment in such portfolio investment could be significantly reduced or even eliminated.
- Lack of Diversification. Fund clients may not be diversified among a wide range of financial instruments, industries or asset classes. As such, a fund client may be exposed to wider fluctuations in value than otherwise would be the case if the fund client were required to maintain a high degree of diversification among the investments. The fund client may have no restrictions on either the amount of assets that can be invested in a certain industry or the

percentage of assets invested in a single security. Therefore, the fund client may be subject to greater risk than diversified portfolios.

- Risks Associated With Hedging. Fund clients may utilize financial instruments to hedge investments and the interest rate risk associated therewith. There can be no assurance that a fund client will hedge when appropriate or choose the correct hedge if it does hedge. The use of hedging transactions involves certain risks. These risks include: (i) the possibility that the market will move in a manner or direction that would have resulted in gain for the fund client had a particular hedging transaction not been utilized, in which case the fund client's performance would have been better had the fund client not engaged in the hedging transaction; (ii) the risk of imperfect correlation between the risk sought to be hedged and the hedging instrument used; and (iii) potential illiquidity for the hedging instrument used, which may make it difficult or costly for the fund client to closeout or unwind a hedging transaction.
- Counterparty and Settlement Risk. Fund clients may transact "over-the-counter" in securities, swaps, and other derivatives and in other assets not traded on exchanges. To the extent that it does, the fund client will bear the credit risk of the parties with whom it trades and may also bear the risk of transfer, clearance, or settlement default. Transactions entered directly between two counterparties expose the parties to the risk of counterparty defaults. In addition, the bonds and other securities held by the fund client will generally be custodied with the fund client's prime broker or other qualified custodian. The failure or bankruptcy of any such prime broker or custodian could have a material adverse impact on the fund client.
- Derivative Instruments. The risks associated with derivative financial instruments, both exchange-traded and over-the-counter, are potentially greater than those associated with the direct purchase or sale of the underlying instrument because of the additional complexity and potential for leverage. Such derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited.

The trading of over-the-counter derivatives will subject the fund client to a variety of risks including: (i) counterparty risk, (ii) basis risk, (iii) interest rate risk, (iv) settlement risk, (v) legal risk, (vi) operational risk and (vii) reputational risk. Transactions in over-the-counter derivatives may involve other risks as well, as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk.

Exchange-traded derivatives may be subject to position limits and other regulatory rules that could result in the fund clients not achieving its intended result.

The foregoing does not purport to be a complete explanation of the risks involved in trading debt and securities or with respect to any investment strategy.

Item 9 – Disciplinary Information

There is no disciplinary information to report.

Item 10 – Other Financial Industry Activities and Affiliations

Fundamental and its affiliates do not engage in any other business activity in the financial industry other than providing investment advice and the asset management services of FAM.

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

Fundamental has adopted a Code of Ethics (the “Code”) which sets forth the ethical and fiduciary principles and related compliance requirements under which Fundamental operates and the procedures for implementing those principles.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients;
- prohibit trading on the basis of material nonpublic information;
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading; and
- require initial and annual reports of securities holdings and monthly transaction reports by Employees.

The Code also provides guidance on fiduciary duty, gifts and entertainment, political contributions, outside business activities and confidentiality.

A copy of Fundamental’s Code is available upon request by contacting Justin Vinci, Fundamental’s Chief Compliance Officer, at (212) 205-5000.

Fundamental does not engage in principal transactions with fund client accounts and if it did so, it would secure applicable fund client consent.

Item 12 – Brokerage Practices

Fundamental has complete discretion in deciding which brokers and dealers its fund clients use and in negotiating the rates of compensation they pay. In addition to using brokers as “agents” and paying commissions, Fundamental may cause the fund clients to buy or sell securities directly from or to dealers acting as principal at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

General

The majority of Fundamental’s investments will not be available in the general market and may only be available from certain brokers. In general, Fundamental will execute trades on behalf of its fund clients with the broker that first shows the trade to Fundamental and will give such broker a first right to sell the position upon exit. In the event that Fundamental sources a trade and determines that the trade should be executed by a third party, it generally will select the broker that has the best relationship with the seller in the transaction, and thereby the best opportunity to secure the trade.

Best Execution and Soft Dollars

Fundamental does not adhere to any rigid formulas in making its selection of brokers, but will weigh a combination of criteria, including, commission rates, reliability, financial responsibility, strength of the broker and ability of the broker to efficiently execute transactions. Fundamental may also consider the broker’s referrals of potential investors for fund clients, provision or payment of the costs of brokerage, research and other investment management-related services or property that are of benefit to fund clients, related persons of Fundamental, Fundamental and other accounts managed by Fundamental or its affiliates, although Fundamental’s strategy does not lend itself easily to use of brokers’ research. Fundamental need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if Fundamental determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of such products or services provided by such broker, the fund clients may pay commissions to such broker in an amount greater than the amount another broker might charge. Fundamental does not currently have any formal “soft dollar” arrangements with brokers, but may accept products or services within the parameters of the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. Within the last fiscal year, Fundamental employees participated in educational seminars or webinars produced by brokers free of charge and we expect to continue to take advantage of these opportunities in the future.

Aggregation of Client Orders (Bunched Trades)

Fundamental currently does not, but may in the future, aggregate fund client trades if we believe such aggregation will benefit the fund clients and will be consistent with our obligation to seek best execution. We will not necessarily aggregate all trades when fund client specifications, nature of the investment, logistics of the trade itself or other circumstances make aggregation difficult, impossible or disadvantageous. In such situations, the inability to aggregate the trade could result in an increase in transaction costs for the fund client.

Item 13 – Review of Accounts

Fundamental's investment team understands that they are responsible for making investments consistent with each fund client's investment objectives, policies and restrictions as set forth in the applicable offering and governing documents of the fund client. The investments made for fund clients often involve revenue bonds where the underlying asset/business is in need of repositioning, restructuring, or recapitalization and Fundamental intends to target positions that afford a level of control. Therefore, after identifying an investment opportunity and making the investment, Fundamental and its investment team engage in ongoing monitoring and management of the underlying assets. The investment team also monitors the investment portfolios of each fund client on an ongoing basis and will adjust the composition, increase or decrease exposure to identified risks and evaluate exit strategies.

Fundamental's investment process consists of: (i) sourcing investment opportunities, (ii) performing extensive diligence on prospective investments (while being mindful of viable exit strategies), (iii) assessing value, (iv) actively managing the investment, and (v) evaluating appropriate exit alternatives.

Investors in the fund clients generally are provided with unaudited quarterly statements and annually receive audited fiscal year-end financial information. Fundamental has also provided a quarterly management letter to investors in fund clients describing fund client positions and performance and its views on the market and potential investment pipeline. We expect to continue this practice and may also provide investors in the fund clients other periodic narrative reports from Fundamental regarding fund client positions or the markets. Certain large investors and members of the advisory committees of the fund clients may request more frequent or more in depth investment analysis not generally provided to all investors by the fund clients. Such investors may, thereby, receive information about the fund clients that leads them to take actions that other investors, in the absence of such information, do not take. We also hold meetings for investors in our fund clients.

Fundamental's Chief Compliance Officer periodically (and at least once per week and at each month-end) reviews the trades and positions of each fund client and such other information as he deems necessary to evaluate whether investment decisions are consistent with the investment guidelines set forth in the governing documents of each fund client. If any discrepancy is found, he discusses the discrepancy with the investment team and the Chief Executive Officer to determine if modifications to the portfolio can or should be made or other remedial actions should be taken.

Item 14 – Client Referrals and Other Compensation

As described in Item 5 – “Fees and Compensation” above, in addition to management fees and carried interest allocable to Fundamental and its affiliates, Fundamental and its affiliates may receive acquisition, disposition and ongoing fees with respect to advisory and related services provided in connection with investments by fund clients.

In addition, Fundamental may enter into, or cause the fund clients to enter into, cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to invest in the Fundamental fund clients. As described in each offering memorandum, all offering expenses are borne by the respective fund client subject to a cap agreed between Fundamental and its affiliates with the fund client and the amount of aggregate offering expenses over the cap reduce the management fee otherwise payable to Fundamental and its affiliates. Each of such third-party placement agents represents to Fundamental that it is registered with the SEC as a broker-dealer if active in the U.S. and that each employee engaged in soliciting investors in the United States for Fundamental's fund clients is a registered representative of such broker-dealer.

Item 15 – Custody

Fundamental is deemed to have custody of the assets of its fund clients because an affiliate of Fundamental generally acts as general partner or managing member of the fund vehicle. Fundamental also verifies the fund administrator's calculations of the fees and instructs the third party custodians to pay such fees out of the fund client accounts. Fundamental arranges for all securities to be held by qualified, third-party custodians in accounts in the name of the relevant fund client. Fundamental expects to rely on an exception to the SEC's reporting and surprise audit obligations under the “custody rule” by making each fund client's year end audit by an accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”) available to investors in the fund clients within 120 days of the clients' fiscal year ends.

Item 16 – Investment Discretion

Fundamental generally manages its fund clients' investments on a discretionary basis under the fund clients' governing agreement (such as a limited partnership agreement) or under an investment management agreement between the fund client and the general partner of the fund client. Typically, an affiliate of Fundamental is granted full authority as general partner or managing member to make all decisions for a fund client, subject only to such restrictions or investment guidelines as may be set forth in the governing agreement and offering documents, and the general partner delegates such authority and duty to carry out such functions as well as certain administrative functions to Fundamental.

Item 17 – Voting Client Securities

The nature of the instruments in which Fundamental invests client funds does not often require the voting of proxies. Where such proxy voting is called for and when granted the discretion to do so, Fundamental's policy is to vote all proxies in the fund client's best interest and to maximize the value of the investment to the fund client, on a case-by-case basis, considering such facts as it deems material. The decision on how to vote proxies generally will be made by the investment team in the same manner as other investment decisions. Because we do not invest directly in securities in which our fund clients invest and we restrict investment in industries and sectors related to our fund clients' investments, we do not expect any material conflicts of interest to arise in voting. Where the interests of different fund clients may conflict, the investment team will report the circumstances to the Chief Compliance Officer who will determine the appropriate course of action.

Proxy voting reports, identifying how proxies were voted where Fundamental has been delegated proxy voting discretion and Fundamental's Proxy Voting Policies and Procedures are available upon written request to the Chief Compliance Officer, Fundamental Advisors L.P., 745 Fifth Avenue, 30th Floor, New York, NY 10151.

Item 18 – Financial Information

Fundamental is not aware of any financial condition that could impair its ability to meet its contractual and fiduciary commitments to fund clients and Fundamental has not been the subject of any bankruptcy petition since its formation in 2007.