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**Item 1. Cover Page**

**FJ Capital Management LLC  
Firm Brochure  
Form ADV Part 2A**

**September 29, 2017**

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This brochure provides information about the qualifications and business practices of FJ Capital Management LLC.

If you have any questions about the contents of this brochure, please contact Andrew Jose at telephone number (703) 331-5500 or via email: [ir@fjcapital.com](mailto:ir@fjcapital.com)

This information has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

FJ Capital Management LLC has been registered as an investment adviser with the SEC since 2013. Our registration does not imply a certain level of skill or training.

Additional information about FJ Capital Management LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

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**Item 2. Material Changes**

The following material changes have occurred since our last update dated March 30, 2017:

We disclosed in ADV Part 2A, Item 4.A the conversion of Financial Opportunity Long/Short Fund LLC to a Master Fund and the formation of a Cayman Island exempt company, Financial Opportunity Long/Short Fund Ltd., as an offshore Feeder Fund.

We disclosed in ADV Part 2A, Item 4.A the formation of Financial Hybrid Opportunity Fund LLC as a newly formed fund in its initial offering stage.

We updated ADV Part 2A, Item 4.E. to reflect an increase in total client assets under management as of August 31, 2017.

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## **Item 4. Advisory Business**

### ***A. General Description of Advisory Firm.***

FJ Capital Management LLC (“FJ Capital”, “Firm”, or “we/us/our”), a Delaware limited liability company, is an SEC registered investment adviser with its principal office located in McLean, VA. Our business was formed in December 2007 and we were registered with the SEC as an investment adviser on December 10, 2013.

Martin Friedman co-founded our Firm and has primary responsibility for managing our Firm and its investment activities. Andrew Jose co-founded our Firm along with Mr. Friedman and has primary responsibility for managing our Firm’s business development, operational and compliance matters. We have five (5) affiliated private funds (“Funds”):

(1) Financial Opportunity Fund LLC (the “Onshore Fund” or the “Master Fund”, as the context requires), a Delaware limited liability company;

(2) Financial Opportunity Fund Ltd., a Cayman Islands exempted company (the “Offshore Fund”), is a feeder fund to the Master Fund and invests all of its assets in the Master Fund. The Directors of the Offshore Fund include David Egglshaw, John Cullinane (both independent) and Andrew F. Jose (interested). The Directors serve in a non-executive capacity and have delegated day-to-day operational responsibilities to the Offshore Fund’s service providers, including the Administrator and the Investment Manager (FJ Capital).

(3) Financial Opportunity Long/Short Fund LLC (the “Long/Short Fund”) or the “Master Long/Short Fund”, as the context requires), a Delaware limited liability company;

(4) Financial Opportunity Long/Short Fund Ltd., a Cayman Islands exempt company (the “Offshore Long/Short Fund”), is a feeder fund to the Master Long/Short Fund and invests all of its assets in the Master Long/Short Fund. The Directors of the Offshore Long/Short Fund include David Egglshaw, John Cullinane (both independent) and Andrew F. Jose (interested). The Directors serve in a non-executive capacity and have delegated day-to-day operational responsibilities to the Offshore Long/Short Fund’s service providers, including the Administrator and the Investment Manager (FJ Capital); and

(5) Financial Hybrid Opportunity Fund LLC (the “Hybrid Fund”), is a Delaware limited liability company. The Hybrid Fund is currently in its initial offering stage of its development and therefore the terms are subject to change prior to the date of its initial closing.

The Funds we offer are excluded from regulation under the Investment Company Act of 1940 under Section 3(c)(1) or 3(c)(7) of that Act. Our investors are all accredited investors, as defined under Rule 501 of Regulation D. Certain employees of our firm also invest in our Funds. Details regarding applicable suitability criteria for investors in our Funds are set forth in the Funds’ offering and subscription documents.

FJ Capital is also the sub adviser to eight (8) private funds sponsored and primarily advised by a large institutional client; and to a pooled account for institutional clients of another registered adviser.

### ***B. Description of Advisory Services***

Our primary responsibilities for our clients are to identify, review, select and manage investment opportunities that can achieve our clients' investment objectives. Our clients are private funds and one pooled investment account. The term "client" and "fund" may be used interchangeably throughout this document; the term "client" also includes the Funds, as applicable. We may in the future manage or accept other types of client accounts which may be tailored by individual clients, at our sole discretion.

We have discretionary authority with respect to investment decisions and serve as the investment manager for our clients pursuant to investment management agreements, which agreements in some cases may require the consent of the client to engage in certain trading activities for the client account. We provide our services in accordance with the investment objectives and guidelines set forth in the clients' respective offering documents or investment management agreements, and we do not provide investment advisory services for individual investors.

In managing all of our client accounts, we follow a similar investment strategy - a primary focus on investments in the financial services industry with an emphasis on the banking sector, and particularly community banks and thrifts. (See Item 8 below for further information on our investment strategy and associated risks.)

### ***C. Availability of Tailored Services for Individual Clients***

We have the ability to tailor our services to clients pursuant to their investment management agreement.

Within the context of the Funds, we have the ability to tailor services through a supplemental agreement such as a "side letter". We do designate certain investors as a "Special Member" having interests with different rights and obligations, including transparency and liquidity rights. To date, we have designated one investor in the Onshore Fund as a Special Member with certain rights not afforded to other investors, including potential transparency rights related to the Onshore Fund's investments; reduced fees; the right to consent to certain major decisions affecting the Onshore Fund and its operating documents, and a potential waiver of certain of the redemption provisions, including the gate mechanism. The Long/Short Fund also permits the designation of certain investors as "Special Members" with certain rights similar to those provided by the Onshore Fund and Offshore Fund; however, to date, no such investor has been designated a Special Investor by the Long/Short Fund.

The Special Member considerations were disclosed to all of our investors at the time they were entered into.

#### ***D. Wrap Fee Programs.***

We do not offer any wrap fee programs.

#### ***E. Client Assets under Management.***

As of August 31, 2017, our total assets under management were approximately \$819 million, of which \$491 million is managed on a discretionary basis. The remainder is nondiscretionary.

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

#### ***A. Advisory Fees and Compensation***

We receive a management fee and a performance fee from our clients for investment management services pursuant to investment management agreements with each client and applicable fund offering documents.

Our investment advisory fees are negotiable at our sole discretion. We may impose a minimum fee and we reserve the right to waive fees at our sole discretion.

Our fee schedule for our Funds is as follows:

Management Fees. We typically charge 0.125% of the monthly net asset value of outstanding interests. This equates to an annual management fee of approximately 1.5%.

Performance-Based Fees. We typically charge 20% of the new net profits, calculated annually (or on redemption dates other than year-end), subject to a “high water mark”. The Long/Short Fund provides certain investors who meet minimum eligibility requirements and who are designated as “Founders Investments” with a reduced performance-based fee of 15%. See Item 6 below (Performance-Based Fees) for additional information.

A client fund may pay a management fee that is higher or lower than that of another client fund, based on factors such as the amount of assets managed for the account as well as fund risk parameters.

Please refer to Item 4.C. above and Item 6 below (Side-by-Side Management) for additional information.

#### ***B. Payment of Fees.***

Clients/Funds are billed either directly for fees or, pursuant to their prior authorization in the investment management agreement, fees are deducted from their accounts at the qualified custodian and paid to our Firm. Currently, only the Master Fund and the Long/Short Fund are directly debited

for fees. The other funds/clients are either sent an email or supporting schedule that serves as the invoice and the funds/clients then send a wire payment to us.

The fund administrator for the Master Fund and the Long/Short Fund provides the fee calculation for the Funds. The fee for the sub advised funds/clients is calculated by the primary adviser or the administrator to the fund/client and then verified by us. The primary adviser or the administrator sends its calculation to FJ Capital for confirmation and approval.

In the case of the Master Fund and the Long/Short Fund, our management fee is billed monthly in advance and quarterly in arrears calculated as of the last day of each month during the relevant quarter, respectively, and the performance fee is billed annually (or on a redemption date that is not year-end). In the case of the sub advised funds or accounts, management fees are billed quarterly, either in advance or in arrears and the performance fee is billed annually (or on a redemption date that is not yearend).

### ***C. Other Fees and Expenses.***

The Funds pay all of their respective ordinary and extraordinary expenses, which may include, without limitation, legal, bookkeeping, accounting, auditing, recordkeeping, administration, and clerical expenses (including expenses incurred in preparing reports and tax information to investors and regulatory authorities and expenses for specialized administrative services); printing and duplication expenses; investment related travel expenses, investment research expenses, market data, newswire and data processing expenses; brokerage commissions, bank charges, custody fees and borrowing costs; the expenses of the offering of interests and filing fees; liability insurance; investment and operating expenses; and such other reasonable expenses necessary to perform the operation of the Fund.

Such operating expenses of the Master Fund, excluding operating expenses specific to the Offshore Fund (i.e., the Series A Members), are allocated *pro rata* to the capital accounts of all Members. The Series A Members are composed of a series of shares held by the Offshore Fund. In addition to their *pro rata* allocation of the Master Fund's operating expenses, Series A is also allocated, subject to a 1% cap of the average net asset value ("NAV") of the Offshore Fund, operating expenses associated with Series A as well as the Offshore Fund's organization and offering costs reimbursement to us. Each series of Participating Shares of the Offshore Fund is then allocated its *pro rata* share of the operating expenses specific to the Offshore Fund and its other expenses.

In the case of the Long/Short Fund, such operating expenses are allocated *pro rata* to the capital accounts of all Members, subject to an expense cap of 1% of the average NAV of the Long/Short Fund in any fiscal year. Notwithstanding the 1% expense cap, certain extraordinary expenses incurred (including taxes, indemnification costs, litigation costs, trade errors or damages) will also be paid by the Long/Short Fund.

Payment or reimbursement of expenses by the Funds will be to the extent permitted by applicable law, including ERISA if applicable.

FJ Capital bears (1) all overhead expenses incurred in the operation of its business, such as salaries and the costs of office space, utilities, telephone, computer equipment, and computer services and (2) any costs of subscriptions to proprietary databases and other research costs, with the exception of unsolicited research as described in Item 12 below.

In the case of the Offshore Fund, we agreed to delay commencement of the Offshore Fund's reimbursement of organizational and initial offering expenses that we incurred on its behalf until the NAV of the Offshore Fund reached \$5 million, which occurred in September 2014. Such organizational and offering expenses are being reimbursed, without interest, in equal monthly installments that began in September 2014 and ending in June 2018.

In the case of the Long/Short Fund we agreed to delay the reimbursement of organizational and initial offering expenses until the NAV of the Long/Short Fund reached \$5 million by December 31, 2016, or waive such reimbursement. Inasmuch as the NAV reached \$5 million within the required time period, such organizational and offering expenses are being reimbursed, without interest, in sixty (60) equal monthly installments commencing December 1, 2016.

In the case of the Offshore Long/Short Fund, we agreed to delay the reimbursement of the organizational and initial offering expenses until the NAV of the Offshore Long/Short Fund reaches \$5 million by December 31, 2018, or waive such reimbursement. If the NAV reaches \$5 million within the required time period, such organizational and offering expenses will then be reimbursed, without interest, in equal monthly installments beginning in the month when the NAV reaches \$5 million until fully reimbursed.

#### Trade Error Losses

From time to time, trade errors may occur. Such errors might include, for example, incorrect entry of a trade into an electronic trading system, errors when reconciling trade activity, or drafting errors related to derivatives contracts or confirmations. Given the volume of transactions executed by the Firm on behalf of the Funds and other Clients, the Funds/Clients should assume that any such errors might occur, although the Firm does not expect them to occur frequently. In the absence of gross negligence, fraud or willful misconduct by the Firm or its affiliates or personnel, the applicable Funds/Clients (and not the Firm) will be responsible for any losses resulting from portfolio management, trading or administrative errors in connection with the investment activities of the Funds/Clients. Any gains or benefits that result from trade errors will also accrue to the applicable Fund/Client.

#### Administration Fee

The fund administrator receives from the Funds its customary fees based on the nature and extent of services provided to the Funds. The administrator is also reimbursed for expenses it incurs on behalf of the Funds.

#### ***D. Prepayment of Fees.***



Fees are payable in advance or, in certain cases, in arrears as agreed to in writing in the various investment management agreements.

Our management fee for the Master Fund is calculated in advance on the first day of each calendar month and, in the case of the Long/Short Fund, it is calculated quarterly in arrears as of the last day of each month during the relevant quarter. In the case of certain other accounts, it is calculated quarterly in advance or quarterly in arrears).

Our performance fees, as they relate to the Master Fund and the Long/Short Fund are credited to the Managing Member's capital account at the end of each year or on a redemption date if other than at a calendar year end.

Our performance fee for certain sub advised accounts is paid directly to the Managing Member at the end of each year or on a redemption date if other than at a calendar year end.

There is no refund once our management fee has been paid.

See Item 6 below for additional information about our fees.

#### ***E. Additional Compensation and Conflicts of Interest.***

We are not compensated for the sale of securities or other investment products and we are not affiliated with any broker-dealers.

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

#### **Performance-Based Fees**

We charge performance-based fees, subject to a "high water mark", as described below and in Item 5 above.

In addition to the 1.5% annual assets under management fee discussed above in Item 5, FJ Capital charges the Funds' performance-based compensation equal to 20% of the net new profits earned, subject to a high-water mark. In the case of the Long/Short Fund, certain investors who meet minimum eligibility requirements and who are designated as "Founders Investments" are charged performance-based compensation equal to 15%. Under these provisions, if a Fund declines in value and subsequently regains that loss, FJ Capital will not assess a performance allocation on the recovery of value. FJ Capital receives performance-based compensation regarding unrealized appreciation as well as realized gains. The performance allocation is generally payable on an annual basis.

The receipt of performance-based compensation creates a potential conflict of interest for FJ Capital, which could receive higher compensation by favoring those entities that pay performance-based compensation over any clients that pay management fees only. Currently, however, all clients have performance-based compensation arrangements. Further, performance-based

compensation may create an incentive for the Firm to recommend an investment that may carry a higher degree of risk to the client. FJ Capital seeks to mitigate this risk by managing its client accounts for the long term.

Performance-based compensation of all clients will be negotiated and memorialized in each client's investment management agreement. A client may pay performance-based compensation that is higher or lower than that of another client, based on factors such as the amount of assets managed for the client.

FJ Capital uses as comparative investment benchmarks the S&P 500 Index, representing the broad stock market, and the NASDAQ Bank Index and S&P Composite 1500 Financial Index, representing the financial services sector in which the Firm focuses. However, fees of all clients are based on absolute returns and performance of these benchmarks does not affect the calculation of fees charged to Clients.

#### Side-by-Side Management

We do not currently manage accounts that are charged any other type of fee other than a management fee and performance-based fee as described above (e.g., we do not charge hourly, flat fee or other asset-based fees), although we may have such accounts under management in the future.

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

#### Types of Clients

Our investors generally include high net worth individuals (accredited investors) and family offices, foundations, trusts, pensions or master/feeder fund-of-funds. Our Funds are only offered to sophisticated investors who meet the applicable regulatory requirements for eligibility, as described above.

### Minimum Account Requirements

Currently, the minimum initial investment amount for investors in the Onshore Fund and the Long/Short Fund are typically \$1,000,000 and in the Offshore Fund, \$500,000. \$50,000 is required for subsequent investments.

We may manage or accept other funds or client accounts in the future, which may be subject to a different minimum investment at our sole discretion.

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

### ***A. Methods of Analysis and Investment Strategies.***

FJ Capital was founded as a fundamentally-driven firm focused on opportunities in the financial services industry, with an emphasis on the U.S. community/regional bank sector. We invest primarily in equity securities of under-followed, publicly traded U.S. community banks.

We construct our portfolios using proprietary fundamental research to uncover value disparities in the small- and mid-cap banking sector. We seek to take advantage of these disparities by building core positions with longer-term holding periods. We also seek to generate attractive, risk-adjusted investment returns by uncovering opportunities with identifiable, near-term catalysts.

The Onshore Fund and the Offshore Fund, and other clients share similar investment objectives, which are to achieve superior absolute performance and to produce long-term capital appreciation through investments primarily in the public equity markets. We seek to accomplish this objective primarily by taking long or short positions in securities that we perceive to be undervalued or overvalued, respectively, by the market. Preservation of capital and minimization of volatility of returns are secondary objectives.

In the case of the Long/Short Fund, it also seeks to achieve superior absolute performance and to produce long-term capital appreciation through investments whether publicly traded or privately placed of issuers primarily in the public equity markets, while also attempting to mitigate risk through hedging activities. The Adviser seeks to accomplish these objectives primarily by taking long or short positions for the Fund in securities that it perceives to be undervalued or overvalued, respectively, by the market. Preservation of capital and minimization of volatility of returns are also objectives of the Long/Short Fund.

In selecting investments for the Master Fund, we emphasize individual security selection (“bottom-up” investing). We utilize fundamental analysis to determine whether a security is overvalued or undervalued. This analysis is guided by nearly 130 years of collective experience analyzing, investing and trading in banks and thrift institutions through various cycles and economic environments. In selecting investments for the Long/Short Fund, we first consider top-down macro forces such as national, regional and local demographic and economic trends, the regulatory

environment, consumer and business trends, interest rates/shape of yield curve, business and manufacturing data, residential/commercial real estate trends, labor and employment data, as well as competitive environment and pricing trends. Bottom-up investment analysis is also conducted.

We focus on investments in the financial services industry with an emphasis on the banking sector, and particularly community banks and thrifts. We invest primarily in equity securities of under-followed, publicly traded U.S. community banks. More specifically, we will focus on mutual-to-stock bank conversions, turnarounds, recapitalizations and growth-at-a-reasonable-price opportunities. We generally intend to take long positions in companies that are viewed as having high quality and the prospect of above-average growth at attractive valuation multiples. We may also take short positions in companies that are believed to be underperforming relative to the market or have declining market share and/or eroding profit margins.

### ***B. Material Risks Relating to Investment Strategies.***

All investments involve financial risk. Our investment strategies are only suitable to clients and investors who are willing and able to bear the economic risk of loss of their entire investment. There is no assurance that the investment objectives will be achieved.

For investments in the Funds, a comprehensive list of risk factors is included in the relevant Fund offering documents; some key risks are summarized below:

Economic Risks and Considerations. Past performance is not necessarily representative of FJ Capital's future results. The investment strategies previously employed by FJ Capital may not produce similar results in a different investment climate in future years. Therefore, FJ Capital's ability to generate premium returns will depend on its ability to adapt to changing market conditions.

Dependence on FJ Capital. FJ Capital makes all decisions with respect to the investment and trading activities of its clients, subject to any limitations imposed by the relevant investment management agreement or governing documents of the client. Clients do not have the opportunity to evaluate fully for themselves the relevant economic, financial and other information regarding investments. They are dependent on the FJ Capital's judgment and abilities. There is no assurance of success.

Funds Not Registered. The Funds are not currently, and do not intend in the future to become, registered as investment companies under the Investment Company Act of 1940, as amended (the "Investment Company Act") in reliance on Section 3(c)(1) thereof. The Funds, therefore, will not be required to adhere to certain investment policies under the Investment Company Act, and investors will not receive the protections of the Investment Company Act, such as limitations on the use of leverage.

Investments in Small-Cap Companies. Investments in shares of smaller capitalized or unseasoned companies, such as some of the community banks in which FJ Capital invests, generally have greater earnings and sales growth potential than larger capitalized companies. However, such investments may involve greater risks, such as limited product lines, markets and financial or

managerial resources. In addition, less frequently-traded securities may be illiquid and subject to more abrupt price movements than securities of larger capitalized companies.

Special Situation Investments. Investments may involve immature companies, companies developing new products or companies seeking to raise additional capital for expansion, or companies facing such other special situations as determined by FJ Capital. Although such investments may result in significant returns to investors, they involve a substantial degree of risk.

Concentration of Investments. Although we follow a general policy of seeking to spread clients' capital at risk among a number of investments deemed attractive, we may at certain times allocate assets such that investments are more concentrated in relation to capital. In this case, a loss in any position could have a material adverse impact on clients' capital positions.

Hedging Transactions. While hedging transactions may be used to reduce risk, such transactions may result in a poorer overall performance than if no hedge was used. Moreover, portfolios at times may be exposed to certain risks that cannot be hedged, such as credit risk relating to particular securities and counterparties.

Short Sales. A short sale involves the sale of a security that a client does not own in the expectation of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. To make delivery to the buyer, FJ Capital often must borrow the security on behalf of clients, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the clients. When FJ Capital makes a short sale of a security on a U.S. exchange for clients, it must leave the proceeds thereof with the broker. It must also deposit with the broker an amount of cash or U.S. Government or other securities sufficient under current margin regulations to collateralize the obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. The extent to which FJ Capital will engage in short sales depends upon the investment strategy and perception of market direction.

Derivatives. The use of leverage or derivative instruments in FJ Capital's investment program may have the effect of magnifying losses in the underlying investments.

ETF Risk. ETFs are investment companies (including open-end and closed-end) that are bought and sold on a securities exchange, like a stock. The risks of owning an ETF are generally comparable to the risks of owning the underlying securities held by the ETF. However, when a client's account invests in an ETF, it will bear additional expenses based on its *pro rata* share of the ETF's expense ratio. In addition, because of these expenses, compared to owning the underlying securities directly, it may be more costly to own an ETF.

Stock Market Risk. The value of the equity securities in which FJ Capital invests for clients may decline in response to developments affecting individual companies and/or general economic conditions. Price changes may be temporary or last for extended periods. For example, stock prices have historically fluctuated in periodic cycles.

Risk of Major Market Dislocations. Major market dislocations have occurred sporadically for both short and prolonged time periods. Such dislocations occurred in 1929, a portion of the 1930s,

portions of 1973 and 1974, October 1987, August 1998, September 2001, and in the Financial Crisis of 2008. Major market dislocations adversely affect almost all investments, and FJ Capital's investments for clients are not likely to be immune from the effects of any future major market dislocation.

Stock Selection Risk. In addition to, or in spite of, the impact of movements in the overall stock market, the value of client investments may decline if the particular companies in which the account invests do not perform well in relation to the market.

Credit Risk. A client may lose money if an issuer of a fixed income security is unable or unwilling to make timely principal and/or interest payments or to otherwise honor its payment obligations. Further, when an issuer suffers adverse changes in its financial condition or credit rating, the price of its debt obligations may decline and/or experience greater volatility. A change in financial condition or credit rating of a fixed income security can also affect its liquidity and make it more difficult to sell.

Interest Rate Risk. The value of a bond may decline due to an increase in the absolute level of interest rates, or changes in the spread between two rates, the shape of the yield curve or any other interest rate relationship. Longer-term bonds are generally more sensitive to interest rate changes than shorter-term bonds. Generally, the longer the average maturity of the bonds held the more value will fluctuate in response to interest rate changes.

Limited Liquidity. As noted, the interests in the Funds will not be registered under the Securities Act of 1933, as amended, and their transfer will be limited under federal and state securities laws. There will be no public or private market in which the interests in the Funds may be sold. In addition, the Funds impose significant other restrictions on the transfer or redemption of interests, making an investment in the Funds suitable only for investors whose financial situations permit them to bear the limited liquidity offered by the Funds. Therefore, prospective investors should not rely on the Funds as a source of short-term liquidity. The Firm also has the power to limit redemptions (in whole or in part) under certain extraordinary circumstances, including, by way of example, during any period when trading is suspended for a material portion of the Fund's investments. Accordingly, an investment in a Fund is only suitable for a person who has no present need for liquidity and can bear the risk of the investment for an unlimited period of time.

Service on Boards of Directors. From time to time, the Firm, its affiliates or other clients managed by the Firm obtain the right to designate one or more individuals (who may be principals, officers, employees or affiliates of the Firm) (collectively, "designees") to serve on the boards of directors of companies in which the Funds or other advisory clients are invested. These rights may be obtained directly by a Fund or the Firm (including its affiliates) or the Firm may obtain such rights through an assignment from an affiliate or a client of the Firm. The Firm believes that the Funds and certain other clients of the Firm derive a substantial benefit from representation on such boards of directors through these designees. In recognition of such benefits as well as, among other things, the individual liability exposure, in particular, associated with serving on the boards of directors of financial institutions, and the additional time expended and burden of serving as a designee, any fees or other forms of remuneration received by such designees are retained by the designees in exchange for their service on such boards of directors. The Funds and certain other clients of the Firm do not receive the benefit of any such fees or other remuneration received by the designees for these services. Service by these designees on the boards of directors of companies in which

the Funds or certain other clients of the Firm are invested could result in the Firm or its affiliates coming into possession of material nonpublic information which, if disclosed, might affect a decision to buy, sell or hold a security or other instrument. Thus, the Firm's possession of such information may cause a Fund or a client to be unable to engage in a transaction in that position until such time as that information is made public.

Differing Terms. Clients and investors will be subject to different fee and compensation arrangements and, accordingly, their returns may vary significantly depending on the fee and compensation terms applicable to each. We have the right, in our sole discretion, to impose different fees or performance-based allocations or compensation arrangements (including but not limited to fees and compensation that are higher, lower, calculated in a different manner or payable at different times) on clients and investors, without notice to other clients or other investors.

### ***C. Risks Associated with Types of Securities That Are Primarily Recommended.***

Private Investment in Public Entities (PIPEs). FJ Capital's managed portfolios will include PIPEs, which are restricted securities purchased directly from an issuer in a private placement with registration of those securities for public resale expected to become effective generally between 120 and 180 days from the date of purchase. Such PIPEs investments generally involve contractual obligations by the issuer of such securities requiring the issuer to take certain actions, such as registering the securities or, in the case of convertible securities, issuing the underlying securities upon exercise of convertible securities and registering the convertible securities and the underlying securities with the appropriate federal and state authorities for resale. In order for the Fund's investment strategy to be effective, the issuer of such securities must abide by its contractual obligations. There can be no assurances that any issuer will succeed in registering for public resale the securities held by a Fund or that registration of the securities will provide the necessary liquidity.

Investments in the Banking Sector. Our investments for our clients are primarily in positions of banking related issuers. This presents a risk in that our investments are not diversified across industry sectors. The banking sector, in which FJ Capital invests, like the economy as a whole, tends to be cyclical and may decline from time to time and suffer periods of extreme volatility such as during the financial crisis.

Governmental Actions; Changes in Applicable Law. Modifications in existing governmental regulations or actions taken by governmental bodies worldwide may affect FJ Capital's clients and/or the economic climate in which they operate. The securities, futures and other derivatives markets are subject (in varying degrees) to comprehensive statutes, regulations and margin requirements. Events of the past several years, including severe market disruptions and volatility, financial institution failures and defaults, increases in the amount of capital allocated to alternative investment strategies and large-scale financial frauds, have caused lawmakers and regulators to promulgate and adopt new laws and regulations. These new or increased restrictions with respect to certain trading techniques and related financial instruments (e.g., short sale restrictions, clearing and trading of over-the-counter derivatives and enhanced speculative position limits), potential changes to the tax treatment of U.S. and non-U.S. investment vehicles present a risk to our trading strategy due to uncertainty of the regulatory outcomes and the effect on our strategy.

See, also, Item 11.

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**Item 9. Disciplinary Information**

We have no legal or disciplinary events related to our Firm or any of our employees.

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

A. This item is not applicable.

B. This item is not applicable.

C. Martin Friedman, a co-founder and the Managing Member of the Firm, serves on the board of directors of Access National Bank, Reston, VA, an FDIC-insured depository institution. To facilitate its operations, each of the Funds maintains a non-interest bearing transaction account with Access National Bank. We do not believe that Mr. Friedman's relationship with Access National Bank creates a conflict of interest with the Funds or with any other clients of the Firm.

See, also, Item 8.B for additional information about certain other financial industry affiliations.

D. This item is not applicable.

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

FJ Capital has adopted a Code of Ethics pursuant to SEC Rule 204A-1 that obligates our Firm and our employees to put the interests of our clients before our own interests and to act honestly and fairly in all respects in dealings with our clients. All our Firm's personnel are also required to comply with applicable federal securities laws.

Our Code of Ethics describes our Firm's fiduciary duties and responsibilities to our clients and sets forth a practice of supervising the personal securities transactions of our employees with access to client information. Employees of our Firm may buy or sell securities for their personal accounts identical to or different from those recommended to our clients. It is our Firm's expressed policy that employees must put the interests of clients ahead of their personal investment decisions.

To supervise compliance with our Code of Ethics, we require that anyone associated with us that has access to advisory recommendations provide duplicate copies of brokerage account statements and annual securities holdings reports to our Firm's Chief Compliance Officer. It is also required that such employees receive approval from our Chief Compliance Officer or his designee prior to



transacting in their personal brokerage accounts. Our Code of Ethics further includes a policy prohibiting the use of material nonpublic information.

Any employee not in observance of the above may be subject to disciplinary procedures, including termination of employment.

A complete copy of our Firm's Code of Ethics will be provided to any client upon request to our Chief Compliance Officer, Andrew Jose, at our principal address, telephone (703) 331-5500.

***B. Client Transactions in Securities Where Adviser Has a Material Financial Interest.***

Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any other advisory client. As a fiduciary and under the anti-fraud section of the Investment Advisers Act of 1940, principal transactions by advisers are prohibited unless the adviser (1) discloses its principal capacity in writing to the client in the transaction and (2) obtains the client's consent to each principal transaction before the settlement of the transaction.

Our Firm has no material financial interest in, nor affiliation with, any issuer or broker that would be considered in conflict with our clients. Further, our Firm does not buy or sell securities of any kind for our Firm's own account for the purpose of reselling to clients. We do not execute transactions between client accounts (including rebalancing trades between Fund accounts). This includes the fund of funds that contains assets belonging to our control persons.

While we do not currently engage in principal or cross trading activity, we may do so in the future. If we determine that principal trading or cross transactions are in the best interest of our clients in the future, our Chief Compliance Officer will ensure written notification and consent is obtained for any such future transaction as required under Section 206(3) of the Advisers Act.

***C. Investing in Securities Recommended to Clients.***

Our Firm or principal owners have investments in securities in which our Funds/clients take a position, may trade and invest simultaneously with our Funds or client accounts and may take investment positions that are different from or opposite to the positions taken by our Funds/client accounts. As a result, conflicts of interest may arise with respect to matters such as the allocation of investment opportunities, purchases and sales of securities in connection with particular trading situations and allocation of personnel, resources and expenses.

#### ***D. Conflicts of Interest Created by Contemporaneous Trading.***

Since we do allow trading by our employees in the same securities we trade for clients, we also require our employees to pre-clear their personal transactions through our Chief Compliance Officer or his designee. Our approval and review process is designed to attempt to identify situations that could disadvantage our clients, as well as manipulative trading, trading ahead of clients and insider trading.

Conflicts of interest are created when our employees are trading in the same security as a client. Client transactions will always take precedence over any Firm or employees' transactions. We have developed procedures under our Code of Ethics policies to monitor such transactions

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### **Item 12. Brokerage Practices**

#### ***A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.***

##### ***1. Client Brokerage Transaction Allocation.***

We primarily utilize multiple financial institutions, including executing brokers, dealers and custodians (collectively, "Brokers") to execute transactions in securities based upon trades placed by our internal trader or our portfolio manager.

Most of our transactions are executed through direct relationships with sell-side firms that we have approved as executing brokers or through a trade order management system ("OMS"), REDI. REDI is a third-party financial trading and execution platform that provides access to execution brokers in a multi-broker network. We also utilize the trading desk of our prime broker, BTIG. Our clients compensate BTIG and other executing brokers in commissions paid on transactions placed for their accounts. We may engage other OMS providers in the future.

For the transactions that go through the REDI system, we have intra-day trading updates and end-of-day trade reports available to us.

#### **Best Execution**

It is our Firm's policy to seek to achieve best execution when placing orders for client trades with broker-dealers. We must execute securities transactions for our clients in such a manner that the total cost or proceeds in each transaction is the most favorable under the circumstances.

In choosing Brokers, we are not required to consider any particular criteria. For the most part, we will seek the most favorable combination of brokerage expenses and execution quality but, as discussed below, in any particular transaction it is not required to select the Broker that charges the lowest transaction cost, even if that Broker provides execution quality comparable to other Brokers. In some instances, our decision is made on the availability of a block trade in an issue that we are looking to buy or sell. In evaluating "execution quality," we may evaluate such factors as the execution, clearance, and settlement capabilities of the Broker generally and in connection

with securities of the type and in the amounts to be bought or sold; the Broker's reliability and financial stability; the size of the transaction; availability of securities to borrow for short sales; and the market for the security.

While we do not anticipate significant investment in securities traded in non-U.S. markets, additional costs could be incurred in connection with non-U.S. investment activities. Brokerage commissions outside the U.S. generally are higher than in the United States. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, and nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

## **2. *Research and Other Soft Dollar Benefits.***

We currently have soft dollar arrangements with Westminster and certain other executing brokerage firms whereby our clients may pay slightly more than the lowest commission rates available to obtain various products and services that are within the meaning of "brokerage and research" in Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act of 1934"). To the extent that the Firm or its affiliates receive such products and services, they will be receiving a benefit by reason of the payment of such additional commissions because they will not need to produce or pay for such products or services.

As a result, we may have an incentive to continue our relationship with Westminster and certain other executing brokers based on such benefits. However, in accordance with our fiduciary duty, we will determine periodically in good faith whether the value of any product or service received under this arrangement is reasonable in relation to the amount of commissions paid. We may use products and services in managing the assets of some or all of the clients over which we exercise investment discretion. We may not necessarily use all of the products and services in managing the assets of every client whose commission dollars paid for the products and services.

In addition to the foregoing arrangements with Westminster and executing brokerage firms, from time to time, we may direct brokerage to certain sell-side firms that specialize in community banks and provide the Firm or its affiliates with banking industry research. Examples of benefits received, include trade industry conference invitations, bank industry data and research reports. We do not pay any additional commissions to any such broker-dealers in exchange for this unsolicited research. Some broker-dealers provide industry specific research and if the Firm finds the research useful, it considers this as a factor in the selection of brokers.

Because many of the research and brokerage services and products could be considered to benefit us, while the "soft dollars" used to acquire them are assets of our clients, we could be considered to have a conflict of interest in allocating Fund brokerage business. Although we believe that such clients will benefit from many of the services and products obtained with "soft dollars" generated by our clients' trades, we and other accounts that we may manage may also derive substantial direct or indirect benefits from these services, particularly to the extent that they use "soft" or commission dollars to pay expenses they would otherwise be required to pay themselves.

The Firm only uses “soft dollars” for products and services that qualify for the safe harbor in Section 28(e) of the Exchange Act of 1934. During the last fiscal year, we have acquired the following types of products and services with client brokerage commissions: Financial analytic services through FactSet; financial analytics services through SNL Financial, New York Stock Exchange feeds, sales reporting, quotations and other information on option trading through OPRA (Options Price Reporting Authority), and market and economic research through Yardeni Research, Inc. and similar research providers.

The following soft dollar procedures apply to ensure compliance with SEC rules regarding the use of soft dollars.

1. The trader and Accounting Department will maintain a list of all Brokers with a description of all related soft dollar arrangements. Any new soft dollar arrangements must be reviewed and approved by the Compliance Department prior to execution.
2. To ensure that soft dollars are used only in compliance with SEC rules and the disclosures made to investors in our offering materials and other documents, soft dollars can only be used with the prior written approval of the Compliance Department. Written requests, which contain information regarding the proposed use of soft dollars (e.g., research materials, software, information/data feeds, etc.), the cost of the purchase (i.e., the amount of soft dollars to be used as payment), and any other information deemed relevant by the requesting party should be submitted in advance to the Compliance Department in either hard copy format or by e-mail.
3. Once a request has been approved by the Compliance Department, including recurring monthly-approved charges, soft dollars up to the amount authorized may be used in payment of the approved expenditure.
4. All soft dollar credits are aggregated and maintained with Westminster Research Associates LLC (“Westminster”). Once the request has been approved by the Compliance Department, the request is submitted through Westminster. Invoices for the requested services are made available to the Accounting Department and Compliance Department via Westminster’s online secure access portal for review and approval; once reviewed and approved by the Accounting Department, Westminster makes the payment for such services directly to the provider. The Accounting Department and the Compliance Department will maintain records detailing each soft dollar payment, the payee/recipient of the soft dollar payment, the date of approval, and the date that the Broker is instructed to make the payment.
5. All periodic statements from third parties, such as Westminster (i.e. non-FJ Capital), reflecting soft dollar balances, credits and usage are to be made available to the Chief Operating Officer and the Compliance Department.
6. Westminster provides online secure access to account information, including current daily balances for commissions and payments as well as monthly statements

showing all components of activity. The Accounting Department will verify previous balances, earned credits, soft dollar debits, and ending statement balances to reconcile trading activity subject to soft dollar credits as well as soft dollars expended during the period. The Accounting Department should resolve promptly any discrepancies noted in the amount of soft dollars credited, debited or in the beginning and ending balances reflected on the statements with the respective Broker. If a discrepancy cannot be resolved by the Accounting Department, such discrepancy must be reported to the Compliance Department immediately.

7. Any questions regarding the use of soft dollars or the procedures set forth above should be directed to the Accounting or Compliance Department.

### **3. *Brokerage for Client Referrals.***

#### **Capital Introduction Services**

BTIG, our principal prime broker, has a capital introduction (“Cap Intro”) department that introduces our Firm to qualified institutional investors. For example, they will sponsor seminars or hold meetings to introduce us to consultants and qualified investors seeking private fund investments. Cap Intro is one of many factors considered in originating a relationship with any prime broker, but it is not a part of the consideration in selecting a broker-dealer to execute trades for our clients. We make decisions on how to allocate trading activity without regard to the Cap Intro services provided by our prime brokers.

No additional compensation is paid by us or our Funds for Cap Intro services.

Although Cap Intro is typically a “free” service, various conflicts of interest may arise. While we do not compensate these broker-dealers based on Cap Intro, we may have an incentive to use the services of a prime broker to have access to their Cap Intro services. In addition, we benefit from arrangements where investors are referred to us because our management fees and performance fees are generally based upon a percentage of assets managed and/or net profits on such assets. Thus, the more assets we have under management, the higher our management fees received and, potentially, our performance compensation. Also, there is a direct conflict between a prime brokers’ desire to increase their revenues by raising capital through their prime brokerage services. The prime broker and/or its affiliates generally receive fees/commissions as a result of our decision to utilize its services as follows: custodian of client accounts managed by us; securities transactions executed on behalf of our clients; and lending funds and/or securities to us as part of our investment strategy, i.e. margin/short sale and/or securities lending programs. While this may present the appearance of a conflict of interest, the availability of the foregoing products and services is not contingent upon us committing to the primer brokers any specific amount of business (custody assets or trading commissions).

We do not use fund/client brokerage commissions to pay for client referrals.

#### **4. *Directed Brokerage.***

##### Brokerage Directed by FJ Capital

Our duties as an investment advisor relate solely to our management of private investment funds. As such, choice of broker is at our discretion, as disclosed to all clients.

From time to time, we may direct brokerage to certain sell-side firms that provide us with banking industry research. We do not pay any additional commissions to any broker-dealers in exchange for this research. The research we receive is unsolicited. Some broker-dealers provide us with industry specific research and if we find the research useful, we may direct a portion of our transactions to these brokers. There are no limits or criteria for directing transactions. We select the brokers on their ability to provide best execution in addition to the benefits we receive. Examples of benefits received, include trade industry conference invitations; bank industry data, and research reports. We maintain a list of sell-side firms that specialize in community banks, as well as provide the Firm with macro and technical research. We utilize these brokers for trade execution.

##### Client Directed Brokerage

Currently, we have one client, the fund of funds that contains assets of our control persons, that directs brokerage to its prime broker pursuant to its offering documents.

Whenever a client directs its transactions to a specific broker-dealer, those transactions will be placed after orders for clients that leave the selection of brokers to our discretion. For these accounts, it may not be possible for us to obtain lower commission rates which might be attainable if we had full discretion in the selection of the executing firm. Clients directing brokerage may also incur other transaction costs or greater spreads or receive less favorable net prices on transactions for their accounts than might otherwise be the case.

#### **B. *Order Aggregation.***

As a fiduciary, an investment adviser must allocate investment opportunities among its clients in a fair and equitable manner. No client shall be given investment priority over any other client. However, each may have separate investment objectives and investment restrictions, which we will be required to follow. As a result, all investment opportunities may not be appropriate for certain clients.

We may aggregate sale and purchase orders for our clients with similar orders being placed for other accounts or entities, if, in our reasonable judgment such aggregation is reasonably likely to result in an overall economic benefit to our clients/Funds. Our employee personal securities transactions will not be included in any aggregated trades.

In many instances, the purchase or sale of securities will be effected in multiple trades throughout a trading day. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in

such transactions will be determined, and our Funds/clients may be charged or credited, as the case may be, the average transaction price. Aggregated orders are typically allocated on a pro-rata basis.

Our Chief Compliance Officer periodically reviews trade/investment opportunity allocation practices of our portfolio manager(s) in order to ensure that our Firm's trade/investment opportunity allocation practices are being implemented in a manner that is fair and equitable to our clients.

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

### ***A. Frequency and Nature of Review.***

Our Chief Operating Officer reviews security positions in our client/Fund accounts on at least a quarterly basis. They are also reviewed whenever purchases or sales transactions are executed in the portfolio.

Our Chief Investment Officer is responsible for account reviews at the portfolio manager level.

### ***B. Periodic Reviews***

Periodic account reviews are performed. See response to Item 13.A. above.

### ***C. Content and Frequency of Regular Account Reports.***

The following reports are sent to our Fund investors and/or other clients of the Firm, as appropriate:

- We send monthly an investment summary report to Fund investors, which include the Funds' performance update and some industry/economic commentary.
- Investors in the Funds also receive monthly account valuation (NAV) statements from our fund administrator, Michael J. Liccar & Co., a Certified Public Accounting firm.
- Investors in the Funds are also provided annual audited financial reports, as well as annual tax information within 120 days of the Funds' fiscal year end. This information is completed by the Funds' independent auditors. See additional information in the custody section in Item 15 below.
- Additionally, the custodian bank for each of the Firm's other clients other than the Funds sends monthly account statements to such clients and daily reports are available to those clients via its password-protected website. Currently, all our client accounts are in custody with qualified custodial institutions.

Investors in these non-Fund clients are urged to compare the statements they receive from the custodian bank with statements from their internal accounting departments or the administrator, as well as from the Prime Broker, and to contact us regarding any potential discrepancies.

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**Item 14. Client Referrals and Other Compensation*****A. Economic Benefits Received from Non-Clients for Providing Services to Clients.***

We do not accept or receive any benefits (cash or non-cash) other than our advisory fees and performance-based fees in relation to our investment advisory business.

***B. Compensation to Non-Supervised Persons for Client Referrals.***

The Firm has entered a contractual agreement with an organization that serves as an external marketing representative to solicit clients for the Firm or investors for the Funds sponsored by the Firm. The Firm may in the future enter similar contractual agreements with other organizations and individuals (hereafter referred to as “Placement Agents”) to provide such external marketing services. While the specific terms of each agreement with a Placement Agent may differ, such fee arrangements, generally, will be based upon the total asset value, from time to time, of the capital accounts of such referred clients/investors and/or fixed retainer fees. The fees paid to a Placement Agent will not result in a client/investor referred by a Placement Agent paying higher fees for the Firm’s investment advisory services than other clients/investors who were not so referred by a Placement Agent. The cost of these referral fees is paid entirely by the Firm and is not borne by the referred client/investor.

We also receive from one of our prime brokers as well as other executing brokers, as described in Item 12 above.

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**Item 15. Custody**

We have custody of the Funds’ assets under current regulations, as the Managing Member of the Funds.

We rely on the “audit approach” for advisers to pooled investment vehicles. With the “audit approach,” we, as the Fund’s adviser, at least annually, ensure distribution of the audited financial statements to all investors in the pooled investment vehicles. If using the “audit approach,” advisers to pooled investment vehicles do not have to comply with the notice and account statement delivery obligations of Rule 206(4)-2(a)(2) and (a)(3) and are deemed to have satisfied the surprise examination requirement of Rule 206(4)-2(a)(4).



The Funds' audited financial statements are prepared in accordance with U.S. generally accepted accounting principles by a PCAOB-registered accounting firm and are distributed to all Fund investors within 120 days of each fiscal year end.

Our auditor distributes audited financial statements to our Fund investors annually on our behalf.

We do not have custody of our other client accounts. Such clients maintain their own custody relationships.

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**Item 16. Investment Discretion**

We have full and complete discretion to determine the investments and amount to be bought or sold for the Funds, including the timing, the broker-dealer used for executions and the commission paid to the broker-dealer, pursuant to the investment management agreements and governing fund documents.

We do not have full discretion over other client accounts.

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**Item 17. Voting Client Securities*****Policies and Procedures Relating to Our Authority to Vote Client Securities.***

Most of our fund clients, with the exception of the fund of funds, require us to vote proxies on their behalf.

We have been granted authorization to vote proxies when received from transfer agents or custodians. We do not use any third-party vendors to assist with the proxy voting process. Our Proxy Voting Policy is designed to ensure that our Firm complies with the requirements under the Advisers Act and fulfills its obligation with respect to proxy voting, disclosure, and record keeping.

The Funds' prime brokers send proxy notifications to the Firm, which are reviewed by members of our Compliance Department on a regular basis. If our Firm makes an election to vote the proxy via the prime broker's website, an e-mail confirmation of the proxy is sent to the Firm, which is maintained in the Firm's books in records. In accordance with Rule 206(4)-4, of the Advisers Act, the Firm will maintain documentation which formed a basis for the Firm's voting decisions. Our Firm monitors corporate actions, receives and votes client proxies according to our Proxy Voting Policy, discloses any potential conflicts of interest, and maintains relevant and required records.

Our Chief Compliance Officer has the responsibility of ensuring that our Firm complies with our Proxy Voting Procedures. When our Firm votes a proxy, members of our Compliance Department will make a record of the reason(s) for the vote and retain such record in a file.

As policy, our Firm's objective when voting proxies is to provide the maximum value to the security held in the portfolio. We vote proxies according to our established guidelines. However, we may vote a proxy in a manner different from the established guidelines if circumstances warrant. For example, we may not vote with management's recommendation in the case of a proxy fight or merger.

Our Firm may occasionally be subject to conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. Our Firm and/or its employees may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers, or candidates for directorships. In voting securities held in a client account, we will attempt to resolve any conflict of interest between our client and FJ Capital's business interests in the way that will most benefit our client.

Upon request, we will provide a copy of our proxy voting policies and procedures, as well as information on how a particular proxy was voted. Please direct requests for information concerning our Firm's proxy voting policies and procedures to FJ Capital, Attention: Andrew Jose, 1313 Dolley Madison Boulevard, Suite 306, McLean, VA. 22101.

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**Item 18. Financial Information**

We do not believe there is any existing financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients. We do not require or solicit client prepayment of more than \$1,200 in fees, per client, six months or more in advance.

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