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Firm Brochure

(Part 2A of Form ADV)

This brochure provides information about the qualifications and business practices of Commonwealth Advisors Inc. If you have any questions about the contents of this brochure, please contact us at 225-343-9342 or email us at info@common.com. The information in this brochure has not been approved or verified by the United States Securities Exchange Commission or by any state securities authority.

Additional information about Commonwealth Advisors Inc is also available on the SEC's website at www.adviserinfo.sec.gov.

March 1, 2011

Item 2: MATERIAL CHANGES

On July 28, 2010, the SEC published "Amendments to Form ADV" which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March, 2011 is a new document prepared according to the SEC's new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Brochure did not require.

In the future, this Item will address only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes, as necessary.

We will further provide you with a new Brochure, as necessary, based on changes or new information, at any time, without charge.

Our Brochure may be requested by contacting Jerry Warrington, Chief Compliance Officer at 225-343-9342 or info@common.com. It is also available on our web site www.common.com free of charge.

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Item 4: ADVISORY BUSINESS

Commonwealth Advisors, Inc (CA) is a Louisiana based company founded in 1991. The principal owners are Walter Morales (50%) and Jennifer O'Beirne Morales (50%). CA is not a publicly traded company.

While Commonwealth specializes in fixed income products (bonds) we offer clients a full array of potential investment opportunities. CA either invests in the following or offers advice on the following types of securities:

- Common Stocks (example: IBM or ATT)
- Warrants - which are purchased or given to shareholders with the option to buy the actual stock of the underlying position for a specific price within a certain time frame. Sometimes warrants are issued to bond holders as an incentive to buy the bond.
- Corporate Bonds – debt owed from companies like American Airlines or Bank of America.
- Mortgage Backed Bonds – debt owed from large pools of mortgages put together by a federal agency, large banks or regional banks.
- Asset Back Securities (ABS) - debt owed by corporations however the debt is collateralized by something the corporation has that is equal to or greater than the actual debt.

During the original meeting with you the Security Approval Form will be discussed. You can indicate by placing an "x" on the box that will indicate to us which form of assets you do not want to be included in your portfolio. This designation can be changed at any time.

Commonwealth Advisors does not participate in any "Wrap Fee Programs."

As of 12/31/2010 Commonwealth Advisors manages \$ 275,409,698 on a discretionary basis and \$ 0 on a non-discretionary basis.

Account Opening: Commonwealth is not a brokerage firm so depending on where you choose to hold your account the procedures may vary. Typically though you can open a brokerage account at one of the brokerage firms in which we are allowed to trade on their institutional platform. When you open an account at one of these firms the accounts may be funded with cash or securities. In some cases we may be able to incorporate your securities into your target strategy but in most cases the securities will need to be sold. The sale of these securities may create a significant tax liability for you, especially if the securities sold had a low taxable cost basis. In certain cases, and to the extent practicable, securities may be used to fund an account without being sold if the same securities are included in the account's investment strategy.

When a client makes a deposit into the brokerage account in which Commonwealth Advisors will manage the funds will be credited to the account and be available for investment, but may be subject to a hold imposed by the brokerage firm for up to ten days and may not be withdrawn during that period. However, the client will receive any interest or dividends on the investment of such funds during the imposed hold period.

If you are moving your assets from a regular brokerage account to an institutional brokerage account, one in which Commonwealth Advisors will use to invest your assets, there will be different cash sweep options than the cash sweep options you used in the regular brokerage account. We can discuss with you the differences and help you choose the one that is most appropriate to your situation.

Account Additions and Withdrawals: You can make additions and withdrawals to your account at any time. We ask that you make those additions to the brokerage firm directly. We also ask that if you make withdrawals from your account that you notify us in advance because we may have trades pending in the account.

Termination: As set forth in the Investment Management Agreement, the agreement can be terminated with a 30 days written notice. The agreement can be terminated by you or by Commonwealth Advisors. If terminated within five business days of execution the client will not be charged any fees or penalties. If you terminate the agreement after the first five business days Commonwealth will prorate the fees based on the number of days remaining in the calendar month after the date upon which written notice of termination is received by Commonwealth Advisors. Upon termination of our agreement you can transfer the account to another brokerage firm or you can maintain the current brokerage account and have Commonwealth Advisors removed from the account as manager. You can also choose to keep the securities we have purchased in the account or instruct us to liquidate the account. Be aware that liquidation of the account may cause you to incur income tax obligations. Also be aware, that if you terminate the agreement with Commonwealth Advisors, the brokerage firm may also charge you a different brokerage rate than was given to Commonwealth Advisors as an institutional advisor. Your cash sweep accounts may also change. Additionally, upon termination it is the client's sole responsibility to monitor and invest the assets. Commonwealth Advisors will no longer have any further obligation to act or give advice with respect to those assets.

Confirmation and Account Statements: As Commonwealth Advisors transacts buys and sells in your account you will receive a confirmation statement directly from your brokerage firm, not from Commonwealth Advisors. Through the brokerage firm trade confirmations may be delivered electronically as well, in lieu of paper confirmations.

Account Reports: All clients receive account statements from Commonwealth Advisors on a quarterly basis. In addition to the Commonwealth Advisors' statement you should also receive a monthly statement from the brokerage firm. While the brokerage firm's monthly statement may not provide performance measurement summaries, the Commonwealth Advisor statements do. The Commonwealth Advisor statements provide a summary of performance over a defined time period and compared to a leading index which is similar to your investment strategy. The performance reports provided by Commonwealth Advisors are calculated in a way of achieving GIPS (Global Investment Performance Standards) Compliance. Further information regarding GIPS compliance can be obtained from the CFA Institute online at <http://www.cfainstitute.org>.

Item 5: FEES AND COMPENSATION

CA is compensated for its advisory services by fees as a percentage of assets under management. All fees are negotiable. CA deducts fees from Client's accounts on a monthly basis in arrears. You will be billed for custodial fees, transaction fees and brokerage fees. Management Fees are prorated for each capital contribution and withdrawal made during the calendar month. Accounts initiated or terminated during the month will be charged a prorated fee. Upon termination of any account earned fees will be due and payable.

Our standard fee is a percentage of the value of your account which we manage. We have provided a breakdown of each fee associated with the each strategy below. Most of our clients pay the management fee on a monthly basis. We calculate the monthly management fee by multiplying the value of your account at the end of the month by the percentage we mutually agreed to charge – that gives us the amount annually and then we divide it by twelve to get the monthly fee.

For example: if the value of your account was \$1,000,000 and the fee you agreed to pay us for our service is 1% then the calculation would look like this:

$$\frac{\text{Month End Value} \times \text{Management fee}}{12} \quad \text{or} \quad \frac{\$1,000,000 \times 1\%}{12}$$

The monthly manage fee would be \$833.33.

Investment Management Fees – We charge a different rate for different types of strategies and different strategies could also have different minimums. We will make sure that you fully understand the strategy, minimums and total fee before you sign the IMA. Below you will find a breakdown of our fees and minimums.

Growth Strategy

The minimum Investment for this strategy is \$500,000.

If your investment is less than \$5,000,000 your fee is 1.25%.

If your investment is greater than \$5,000,000 you would pay 1.25% for the first \$5,000,000 and then only 1% for anything over \$5,000,000.

If your investment is greater than \$10,000,000 you would pay 1.25% for the first \$5,000,000, 1% on the second \$5,000,000 and then pay only .75% for anything over \$10,000,000. If your investments are greater than \$20,000,000 we will negotiate a rate specifically for you.

Balanced Strategy

The minimum Investment for this strategy is \$500,000.

If your investment is less than \$5,000,000 your fee is 1.25%.

If your investment is greater than \$5,000,000 you would pay 1.25% for the first \$5,000,000 and then only 1% for anything over \$5,000,000.

If your investment is greater than \$10,000,000 you would pay 1.25% for the first \$5,000,000, 1% on the second \$5,000,000 and then pay only .75% for anything over \$10,000,000. If your investments are greater than \$20,000,000 we will negotiate a rate specifically for you.

Enhanced/Total Return Fixed Income

The minimum Investment for this strategy is \$500,000.

If your investment is less than \$5,000,000 your fee is 1.25%.

If your investment is greater than \$5,000,000 you would pay 1.25% for the first \$5,000,000 and then only 1% for anything over \$5,000,000.

If your investment is greater than \$10,000,000 you would pay 1.25% for the first \$5,000,000, 1% on the second \$5,000,000 and then pay only .75% for anything over \$10,000,000. If your investments are greater than \$20,000,000 we will negotiate a rate specifically for you.

Conservative Balanced Fixed Income

The minimum Investment for this strategy is \$500,000.

If your investment is less than \$5,000,000 your fee is 1.25%.

If your investment is greater than \$5,000,000 then you would pay 1.25% for the first \$5,000,000 and then only 1% for anything over \$5,000,000.

If your investment is greater than \$10,000,000 then you would pay 1.25% for the first \$5,000,000, 1% on the second \$5,000,000 and then pay only .75% for anything over \$10,000,000. If your investments are greater than \$20,000,000 we will negotiate a rate specifically for you.

Investment Grade Fixed Income

The minimum Investment for this strategy is \$500,000.

If your investment is less than \$5,000,000 your fee is 1.25%.

If your investment is greater than \$5,000,000 you would pay 1.25% for the first \$5,000,000 and then only 1% for anything over \$5,000,000.

If your investment is greater than \$10,000,000 you would pay 1.25% for the first \$5,000,000, 1% on the second \$5,000,000 and then pay only .75% for anything over \$10,000,000. If your investments are greater than \$20,000,000 we will negotiate a rate specifically for you.

Management Fees--Sand Spring Domestic Funds and Sand Spring Offshore Fund. CA provides investment management services to each Sand Spring Fund pursuant to an Advisory Agreement. CA will be paid, pursuant to the respective Advisory Agreement, a Management Fee, with respect to Sand Spring III and Sand Spring III Offshore payable monthly in arrears. The Management Fee is computed generally at a fixed percentage rate (prior to reduction for any accrued Incentive Allocations or Performance Fees, discussed below). The applicable monthly percentage rate is 1/12 of 2% for Sand Spring III and Sand Spring III Offshore.

Other Fees

In addition to the percentage of assets under management we also can be hired as consultants with whom we would negotiate either an hourly charge/fee or provide the service on a fixed fee amount. You may also incur fees from custodial firms and/or fees related to transactions. If these fees are incurred they are paid directly to the service provider (brokerage firm) and are not paid to or by Commonwealth Advisors. In some cases, you have the ability to select your custodian and you may direct your brokerage transactions to a particular firm.

Item 6: PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT

Management Fees--CA Domestic Funds and CA Offshore Funds. Each Non-Managing Member of a CA Domestic Fund or Shareholder of a CA Offshore Fund will pay CA an asset management fee ("Management Fee") monthly in arrears, in an amount equal to a percentage of the net asset value of the respective Non-Managing Member's Capital Account or the Shareholder's Investment Account, as the case may be, as calculated on the last Business Day of that month. The applicable monthly percentage for CA Core and CA Core Offshore is 1/12 of 0.90%; the applicable monthly percentage for CA Equity and CA Equity Offshore is 1/12 of 1.30%, and the applicable monthly percentage for CA High Yield and CA High Yield Offshore is 1/12 of 1.30%. "Business Day" means a day on which banks are open for normal banking business in New York, except as may be otherwise specified by CA with respect to a CA Domestic Fund or by the directors ("Directors") with respect to a CA Offshore Fund. CA may waive the Management Fee with respect to any Non-Managing Member and the Directors, in consultation with CA, may waive the Management Fee with respect to any Shareholder.

Incentive Allocation--CA Domestic Funds. Under the Limited Liability Company Agreements (each, an "LLC Agreement") for the CA Domestic Funds, CA is primarily responsible for the general management of each CA Domestic Fund. CA is entitled to receive, with respect to each Non-Managing Member who became a Non-Managing Member on or after July 1, 2007, an incentive allocation ("Incentive Allocation") that is computed by allocating, as of the end of a Fiscal Year (a "Fiscal Year" is a calendar year), a percentage of the net profits of that CA Domestic Fund, including unrealized gains, to the account of CA, subject to a loss carry forward provision (or "high water mark"). The Incentive Allocation percentage for CA Core is 10%; the percentage for CA Equity and CA High Yield is 20%. CA, in its discretion, may waive all or part of the Incentive Allocation, with respect to any Non-Managing Member.

Performance Fees--CA Offshore Funds. Each CA Offshore Fund will pay CA each Fiscal Year a performance fee ("Performance Fee") for each Series established on or after July 1, 2007 equal to a percentage of the net profits of each such Series (subject to a loss carry forward provision or "high water mark"). Performance Fees will be pro-rated for partial periods, as upon redemption prior to the last Business Day of a Fiscal Year. The Performance Fee percentage for CA Core Offshore is 10%; the percentage for CA Equity Offshore and CA High Yield Offshore is 20%. No Performance Fee will be paid with respect to any shares ("Shares") held by any Shareholder who was a Shareholder prior to July 1, 2007. Performance Fees may be reduced or waived, with respect to any Shareholder, by the Directors in consultation with CA.

Potential Conflicts of Interest

The receipt of performance-based fees from some separate accounts and our private investment funds creates conflicts of interest. Commonwealth Advisors can potentially receive higher fees from accounts with a performance-based compensation structure than from those accounts that pay an asset-based fee as described in Item 5. For example, Commonwealth Advisors may have an incentive to direct the best investment ideas to the account that pays a performance-based fee or to allocate or sequence trades in favor of the performance fee account. To manage these potential conflicts:

- All accounts within a strategy are managed to the strategy's model portfolio.
- Commonwealth Advisors performs a periodic review of each investment strategy's model portfolio versus each client account. In this review, every position size for each client account is compared to our model weights. In addition, portfolios are monitored by our compliance department for consistency with client objectives and restrictions.
- Commonwealth Advisors has trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally and to prevent conflicts from influencing the allocation of investment opportunities among clients.

Commonwealth Advisors has another potential conflict of interest, as an adviser to both long-only accounts and accounts that execute short sales. We could sell short securities in a long-short account while causing long-only accounts to hold the same security long. In this case, we could harm the performance of the long-only accounts for the benefit of accounts that execute short sales, which may include performance-based fee accounts. For example, continually selling a position short may depress the stock price which could harm a long-only account if it holds the same security. To manage this conflict, Commonwealth Advisors has a specific policy that prohibits a short position from being held as a long position in any other client account that we manage.

A performance-based fee is an advisory fee based on a percent of capital gains on or capital appreciation of client assets. Performance-based fees paid to investment advisers may be significantly higher than the asset-based fees paid on traditional accounts.

Item 7: TYPE OF CLIENTS

Our primary business is to provide investment supervisory services to the following:

- Individuals, Trusts, Estates
- Businesses
- Charitable Organizations
- Institutional Clients such as:
 - Pension Groups
 - Retirement Plans
 - Profit Sharing Plans
 - Hedge Funds
 - Limited Partnerships
 - Limited Liability Companies
 - Private Investment Funds
 - Insurance Companies

When you become a client of ours you will sign an Investment Management Agreement (IMA). The IMA is an agreement between you and CA which details how much you will be pay for our investment management services.

Item 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

While there are multiple ways to analyze investments CA uses mostly Fundamental Analysis but can use Technical Analysis as well. Fundamental Analysis basically measures everything known about an investment opportunity. When reviewing Fundamental Analysis on a bond at a macro level we would analyze economic factors such as:

- interest rates and overall state of the economy and information about the bond issuer
- changes in credit ratings.

On a micro level we investigate things like potential risks associated with:

- Interest rates
- The likelihood that the bond would fail to pay interest or principal now or in the future.
- The risk that the current interest rates will go up or down and how that affects the bonds we own
- The risk of trying to sell a bond after owning it for some time period
- The risk associated with owning bonds that are tied to another currency; other than the dollar
- The risk associated with regional, national or global events; good or bad
- The risk associated with a bond that matured early

When analyzing common stocks we would review things such as:

- Corporate Revenues
- Corporate Earnings
- The potential future growth of the company and what the company makes
- The company's ability to make a profit based on its current cash and how that cash is used by management
- Is the company profitable and will it remain profitable
- What is the current value of the company relative to its peers.

As mentioned earlier the majority of our analysis is based on fundamentals but we can on occasion use Technical Analysis as well. Technical Analysis is a type of analysis that uses statistics provide on a periodic basis to identify patterns which could suggest future prices – for buying stocks as well as selling them. We would never use technical analysis as a sole means to predict stock movement but only to enhance sell and buy targets.

Our analysis is performed on a combination of proprietary systems, built in-house and best-of-breed industry standard application.

THE MAIN SOURCES OF INFORMATION APPLICANT USES INCLUDE

There is a lot of information in the market place regarding investment opportunities. Below is a list of the types of sources we have access to and could use in reviewing investment opportunities:

- Industry periodicals
- Research material from other expert analysts
- Annual reports and prospectuses (these are also filed with the Securities and Exchange Commission) provided by corporations
- Company press releases
- And to some degree corporate rating services
- We also utilize our own unique modeling and testing methods which has been developed and honed from years of experience.
- Inspecting corporate activities

THE INVESTMENT STRATEGIES USED TO IMPLEMENT ANY ADVICE GIVEN TO CLIENT INCLUDE

Everyone's investing goals, time frame, risk tolerance and knowledge are all unique. We will strive to use a strategy which makes sense and takes into consideration each investor's characteristics. These strategies could include any of the following:

- Buying investments and holding them for greater than a year (Long Term purchase)
- Buying investments and holding them for less than a year (Short Term purchase)
- Buying and Selling investments in a very short term and if conditions warrant it
- Selling a stock, that you don't own, with the expectation that the stock would increase in value and then buying the stock at a higher value later on
- We could borrow against stocks or bonds that are currently in your portfolio (using your current investments as collateral) and use the proceeds to buy additional investments. While we could expect to pay interest on the loan the expectation would be that we would earn more return than interest paid.

- In some instances, if the strategy was appropriate, we could purchase or sell options (future rights or contracts to buy or sell an investment). An option is unique in that the right or contract itself has value and could be bought or sold as an investment. In the industry these investments are considered derivative investments because they have a value derived from an underlying investment.

Investment in securities involves risk of loss that clients should be prepared to bear. The Adviser does not guarantee the performance of the Account, any investment or asset in the Account, any specific level of performance, the success of any investment decision or strategy that the Adviser may use, or the success of the Adviser's overall management of the Account. The client should understand that investment decisions made for the Account by the Adviser are subject to various market, currency, economic, political and business risks, and that those investment decisions will not always be profitable. The Adviser will manage only assets held in the Account and in making investment decisions for the Account, the Adviser will not consider any other securities, cash or other investments held away from our management.

Some of the securities used by the firm and the risk associated with them are listed below:

Certificates of Deposit (CD): A short or medium term interest-bearing instrument that typically carries insurance from the Federal Deposit Insurance Corporation (FDIC). CDs are characterized as relatively low risk, low return investment securities with the primary associated risk being interest rate risk.

U.S. Treasury Securities: A debt obligation of the U.S. government backed by its full faith and credit. U.S. Treasury bills have a maturity of less than one year; U.S. Treasury notes have a maturity up to 10 years; and U.S. Treasury bonds have a maturity greater than 10 years. Although Treasury securities have no credit risk, their primary risk is interest rate risk.

U.S. Agency Bonds: Debt obligations issued by government-related agencies such as Ginnie Mae, Freddie Mac, and Fannie Mae. Only Ginnie Mae securities carry the explicit full faith and credit guarantee of the U.S. government. Although credit risk is considered extremely minimal, these securities carry interest rate and reinvestment risk.

Mortgage-Backed Security (MBS): These are securities backed by a pool of underlying mortgages. An MBS is typically issued by a governmental agency such as Ginnie Mae or Freddie Mac but can also be issued by a private mortgage servicing company. The primary risks of an MBS are interest rate risk and reinvestment risk. They are also called Collateralized Mortgage Obligations ("CMOs").

Asset-Backed Security (ABS): These are securities issued by private entities and backed by assets of the issuer, typically loans, accounts receivable, or property. The primary risks of an ABS are credit risk, interest rate risk, and reinvestment risk.

Corporate Bond: A bond issued by a corporation and typically backed by the general revenues of the company. These bonds typically have a par value of \$1,000, have a term maturity, and pay interest semi-annually. In some cases, there are zero-coupon corporate bonds. The primary risk of corporate bonds is credit risk, and corporate bonds also have interest rate risk. Corporate bonds rated triple-B or above are considered investment grade bonds while those rated below triple-B are considered non-investment grade bonds.

Municipal Bond: A bond issued by a state, municipality, or municipal entity such as a water utility. These bonds are typically backed by the general taxing authority of the municipality or the revenues derived from a particular municipal service. These bonds typically have a par value of \$1,000, have a term maturity, and pay interest semi-annually. The primary risk of municipal bonds is credit risk, and municipal bonds also have interest rate risk. Municipal bonds rated triple-B or above are considered investment grade bonds while those rated below triple-B are considered non-investment grade bonds.

Convertible Bond: A corporate bond that can be exchanged, at the option of the holder, for a specified number of shares of the issuer's common or preferred stock. The primary risk associated with convertible bonds is credit risk.

Preferred Stock: Stock of a corporation that provides a specific dividend that is paid before payment of dividends to common stock holders. Preferred stock takes precedence over common stock in the event of a liquidation, but it does not carry voting rights. The primary risk associated with preferred stock is credit risk with liquidity risk being a secondary consideration.

Distressed Securities: Securities of companies (stocks or bonds) entering, participating in, or exiting the bankruptcy or reorganization process. Distressed securities often make no dividend or coupon payments. The primary risk is credit risk with liquidity risk being a secondary consideration.

Domestic Stocks: Common stocks of corporations based in the United States that may or may not pay a dividend. Typically, common stocks carry voting rights. Domestic common stocks are categorized by the market capitalization of the company with less than \$1 billion being small cap, \$1-\$5 billion being mid cap, and greater than \$5 billion being large cap. The primary risks of domestic common stocks are price risk and credit risk.

Foreign Stocks: Common stocks of corporations based in a foreign country that may or may not pay a dividend. Typically, common stocks carry voting rights. Common stocks are categorized by the market capitalization of the company with less than \$1 billion being small cap, \$1-\$5 billion being mid cap, and greater than \$5 billion being large cap. The primary risks of foreign common stocks are price risk and credit risk as well as currency risk.

Mutual Funds: Mutual funds are pooled investment vehicles providing broad market exposure to a particular asset class or investment sector. The primary risk of mutual funds is price risk.

Options: Options are the right to buy or sell a specified security at a specific price at some point in the future. The primary risk of options is price risk.

Private Equity: Private equity is equity of non-public companies. The primary risk of private equity is liquidity risk with credit risk being a secondary consideration.

All investment programs carry the risk of loss and there is no guarantee that any investment strategy will meet its objective. Our investment approach constantly keeps the risk of loss in mind. Depending on the types of securities you invest in, you may face the following investment risks:

- Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Financial Risk: Excessive borrowing to finance a business.' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- Liquidity Risk: When consistent with a client's investment objectives, guidelines, restrictions and risk tolerances, Advisor may invest portions of Client portfolios in illiquid securities, subject to applicable investment standards. Investing in an illiquid (difficult to trade) security may restrict its ability to dispose of investments in a timely fashion or at an advantageous price, which may limit the ability to take full advantage of market opportunities.
 - Accounts may hold securities which are partnerships. Some partnerships are relatively liquid and may be either exchange listed or traded over-the counter. However, most partnership securities are often illiquid and are subject to significantly less regulation than public investments.
- Fixed income Risks: Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.
- Foreign, Emerging Markets equity and fixed income Risk: Investments in these types of securities have considerable risks:
 - Investments in securities of foreign and emerging markets issuers involve different investment risks than those affecting obligations of U.S. issuers. Public information may be limited with respect to foreign and emerging markets issuers; foreign and emerging markets issuers may not be subject to uniform accounting, auditing and financial

standards and requirements comparable to those applicable to U.S. companies. There may also be less government supervision and regulation of foreign and emerging markets securities exchanges, and are less liquid and more volatile than securities of comparable domestic issuers. Brokerage commissions and other transaction costs on foreign and emerging markets securities exchanges are generally higher than in the U.S. Dividends and interest paid by foreign and emerging markets issuers may be subject to withholding and other foreign taxes, which may decrease the net return on foreign investments as compared to dividends and interest paid by U.S. companies. Such markets often have different clearance and settlement procedures for securities transactions. Additional risks include future political and economic developments, the possibility that a foreign jurisdiction might impose or change withholding taxes on income payable with respect to foreign and emerging markets securities, and the possible adoption of foreign governmental restrictions such as exchange controls. Since the securities purchased in a foreign or emerging markets portfolio can be denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the portfolio.

- High-yield fixed-income Securities Risk: Investments in high-yielding, non-investment grade bonds involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to make timely interest and principal payments on these securities.
- Structured products Risk: These products often involve a significant amount of risk and should only be offered to Clients who have carefully read and considered the product's offering documents, as they are often times based on derivatives. Structured products are intended to be "buy and hold" investments and are not liquid instruments.
- Derivatives (options) Risk: Options involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss, including the loss of principal.
- Small/Mid Cap Risk: Stocks of small or small, emerging companies may have less liquidity than those of larger, established companies and may be subject to greater price volatility and risk than the overall stock market
- Diversification Risk: Investments that are concentrated in one or few industries or sectors may involve more risk than more diversified investments, including the potential for greater volatility.

Item 9: DISCIPLINARY INFORMATION

The SEC requires that if there are legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management that we must disclose all material facts regarding those events.

The SEC breaks these events into three categories: A criminal or civil action in a domestic, foreign or military court against the firm or management persons; An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory agency against a firm or management person; and a self-regulatory organization (SRO) proceeding against a firm or management person.

Criminal or civil actions represent conviction or pleading guilty or no contest to any felony, misdemeanor that involved investments or investment related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses. We also have to disclose if we were named in any pending criminal proceedings that involved in any of the criminal or civil actions listed above; Or, if we were found to have been involved in a violation of an investment-related statute or regulation. And finally, if our firm or a management person was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.

While Commonwealth Advisors has been a target of litigation from one client we fully disagree with the claims of the suit and feel confident that it will have no material bearing on our firm.

The second disclosure item would be if the firm was involved in an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulator agency. We would have to disclose if the firm or management persons were found to have caused an investment-related business to lose its authorization to do business; or was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority which denies, revokes the authority of the firm or management person to act in an investment-related business; bars or suspends the firm or management person associated with an investment-related business; or otherwise significantly limits the firm or management person investment-related activities; or imposes a civil money penalty of more than \$2,500 on the firm or a management person.

Commonwealth Advisors is currently undergoing an SEC examination and investigation; however, the SEC has not issued a statement of any violation against the firm or a management person. The examination was begun in May 2008.

The third disclosure item is in regards to Self-Regulatory Organizations (SROs) proceeding in which the firm or a management person was found to have caused an investment-related business to lose its authorization to do business; or was found to have been involved in a violation of the SRO's rules and was barred or suspended from membership or from association with other members, or was expelled from membership; otherwise significantly limited from investment-related activities; or was fined more than \$2,500.

Commonwealth Advisors has no disclosure to make regarding Self-Regulatory Organizations.

Item 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Commonwealth advisor provides advice to other certain investment vehicles. Below is a list of those investment vehicles and information related to those investment vehicles.

CA CORE FIXED INCOME FUND, LLC

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Barclays Aggregate Bond Index, which is a broad-based investment grade bond index. Investment grade means rated better than BBB by the major bond rating companies like Moody’s and Standard & Poor’s.

This fund is a limited liability company registered in the state of Delaware. This fund is also known as “Core LLC” and is part of a group of fund referred to as “CA Funds” and “CA Domestic Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Commonwealth Advisors is considered a Managing Member of this fund. A Managing Member means that Commonwealth Advisors has full discretionary authority to conduct business on behalf of the fund.

CA HIGH YIELD FUND, LLC

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Barclays High Yield Composite Bond Index, which is a broad-based high yield bond index. High Yield bonds are bonds which are rated below investment grade (or bonds that have been rated below BBB by a major rating service like Moody’s or Standard & Poor’s). High Yield bonds have a higher risk of default or other adverse credit events, but characteristically pay higher yields than higher rated or quality bonds which can make them more attractive to some investors.

This fund is a limited liability company registered in the state of Delaware. This fund is also known as “High Yield LLC” and is part of a group of fund referred to as “CA Funds” and “CA Domestic Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Commonwealth Advisors is considered a Managing Member of this fund. A Managing Member means that Commonwealth Advisors has full discretionary authority to conduct business on behalf of the fund.

CA STRATEGIC EQUITY FUND, LLC

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Dow Jones Wilshire 5000 Composite Index, a broad-based equity index. The Dow Jones Wilshire 5000 Composite Index is an index which is intended to most closely represent the performance of most publicly traded companies traded in U.S. market. However, it does exclude small companies and penny stocks whose stock prices are not readily available on the stock exchanges.

This fund is a limited liability company registered in the state of Delaware. This fund is also known as “Strategic Equity LLC” and is part of a group of fund referred to as “CA Funds” and “CA Domestic Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Commonwealth Advisors is considered a Managing Member of this fund. A Managing Member means that Commonwealth Advisors has full discretionary authority to conduct business on behalf of the fund.

CA CORE FIXED INCOME OFFSHORE FUND, LTD

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Barclays Aggregate Bond Index, which is a broad-based investment grade bond index. Investment grade means rated better than BBB by the major bond rating companies like Moody’s and Standard & Poor’s.

This fund is an exempted Cayman Islands company. This fund is also known as “Core LTD” and is part of a group of fund referred to as “CA Offshore Funds” and “CA Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street Bank Cayman Islands.

Commonwealth Advisors was appointed as an Investment Advisor of this fund by the Directors of the fund.

CA HIGH YIELD OFFSHORE FUND, LTD

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Barclays High Yield Composite Bond Index, which is a broad-based high yield bond index. High Yield bonds are bonds which are rated below investment grade (or bonds that have been rated below BBB by a major rating service like Moody’s or Standard & Poor’s). High Yield bonds have a higher risk of default or other adverse credit events, but characteristically pay higher yields than higher rated or quality bonds which can make them more attractive to some investors.

This fund is an exempted Cayman Islands company. This fund is also known as “High Yield LTD” and is part of a group of fund referred to as “CA Offshore Funds” and “CA Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Commonwealth Advisors is considered a Managing Member of this fund. A Managing Member means that Commonwealth Advisors has full discretionary authority to conduct business on behalf of the fund.

CA STRATEGIC EQUITY OFFSHORE FUND, LTD

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and investment their assets. The fund’s investment objective is to provide investors with a return exceeding that of the Dow Jones Wilshire 5000 Composite Index, a broad-based equity index. The Dow Jones Wilshire 5000 Composite Index is an index which is intended to most closely represent the performance of most publicly traded companies traded in U.S. market. However, it does exclude small companies and penny stocks whose stock prices are not readily available on the stock exchanges.

This fund is an exempted Cayman Islands company. This fund is also known as “Strategic Equity LTD” and is part of a group of fund referred to as “CA Offshore Funds” and “CA Funds.”

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Commonwealth Advisors is considered a Managing Member of this fund. A Managing Member means that Commonwealth Advisors has full discretionary authority to conduct business on behalf of the fund.

SAND SPRING CAPITAL III MASTER FUND LLC

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and invest their assets. Additionally, what makes this type of vehicle very unique is that it is comprised of two “feeder” funds, one Sand Spring Capital III LLC which is an LLC (a limited liability company registered in Delaware) and the other is Sand Spring Capital III LTD which is an LTD (an exempted Cayman Island Offshore company). The investment objective of Sand Spring Capital III Master Fund LLC is to provide investors with positive absolute returns over the long term by seeking investments in a wide variety in distressed and highly leveraged companies.

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Sand Spring Management, LLC is the Managing Member of Sand Spring Capital III Fund LLC and is a Delaware registered company. Sand Spring Management has engaged Commonwealth Advisors in an advisory agreement with Sand Spring Capital III Master Fund LLC.

CA RECOVERY MASTER FUND LLC

This investment vehicle is considered a pooled investment where investors “pool” or combine their investments in one private fund and invest their assets. Additionally, what makes this type of vehicle very unique is that it is comprised of two “feeder” funds, one CA Recovery Fund LLC which is an LLC (a limited liability company registered in Delaware) and the other is CA Recovery Fund LTD which is an LTD (an exempted Cayman Island Offshore company). The investment objective of CA Recovery Master Fund LLC is to provide investors with positive absolute returns over the long term by seeking investments in a wide variety in distressed and highly leveraged companies.

This fund paid its own start-up costs and organizational expenses and, on an ongoing basis, will bear its ongoing transaction, administrative, custody, legal, tax preparation, insurance and accounting and audit expenses as well as expenses of other service providers.

The assets of this fund are currently held at State Street bank.

Sand Spring Management is the Managing Member of CA Recovery Master Fund LLC. . Sand Spring Management has engaged Commonwealth Advisors in an advisory agreement with CA Recovery Fund Master Fund LLC.

Item 11: CODE OF ETHICS

Commonwealth has adopted a “policy on personal securities transactions and insider information” referred to as The Code of Ethics. This policy applies to all employees and some members of the employee’s families.

Employees must put the interest of Commonwealth clients first and foremost. Employees can trade in

their own accounts but only within the limits of the Code of Ethics.

CA may recommend to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest. Employees of CA may also buy or sell for themselves a security that it also recommended by CA to clients. CA has a Code of Ethics/Employee Trading Policy governing personal securities transactions by employees. Employee fee paying accounts managed by Commonwealth will be allocated transactions in the same manner as other client accounts. The policy states that the employee may not purchase or sell a security (unless it is an exempted transaction) within three trading days before and one trading day after the execution of a trade in the same security bought or sold by CA for one or more clients. The policy requires the pre-clearance by the Chief Compliance Officer before the employee can execute a transaction. There are some transactions that are exempted from the pre-clearance requirement. CA employees report to the Chief Compliance Officer on a quarterly basis any transaction in a security over which the CA employee had or as a result of the transaction acquired, any direct or indirect beneficial ownership. CA employees report to the Chief Compliance Officer brokerage accounts and holdings in securities in which the employee has any direct or indirect beneficial ownership within 10 days of employment, with information current as of a date no more than 45 days prior to employment, and annually thereafter. Annual reports must be submitted by February 14 of each year and the information contained in an annual report must be current as of December 31 of the prior year. CA will provide a copy of the Code of Ethics/Employee Trading Policy to clients and prospective clients upon written request.

Item 12: BROKERAGE PRACTICES

Bunching and Allocation Procedures

The objective of the bunching and allocation procedures of Commonwealth is to allocate investment opportunities fairly among clients so that, over time, all clients are treated equitably. It is Commonwealth's general policy to allocate purchase or sale opportunities on a *pro rata* basis to all appropriate clients. However, Commonwealth recognizes that a *pro rata* allocation may not always be feasible or in the best interests of Commonwealth's clients.

In allocating a transaction, portfolio managers ("PMs") will consider not only Commonwealth's guiding allocation objective, but may also consider specific circumstances related to an account or an investment, such as: (1) cash availability and/or leverage targets in particular client accounts; (2) investment guidelines and limitations imposed by the relevant governing documents for such accounts; (3) principles of diversification of assets; (4) partial fill or trade order; (5) small account size (allocation may be adjusted to minimize custodian fees and transaction charges); (6) undesirable position size (allocation may be adjusted to remove an undesirably small or undesirably large position); (7) applicable investment transfer or assignment restrictions; (8) client tax status; (9) regulatory restrictions; (10) redemption/withdrawal requests from accounts; and (11) a determination by the PM that the investment or sale opportunity is inappropriate in whole or in part for one or more of the accounts within the strategy. As such, account allocations become tailored as necessary to the needs, restrictions and circumstances of each client account. Employee fee-paying accounts managed by Commonwealth will be allocated transactions in the same manner as other Client accounts.

Block trades are used whenever possible. A block trade is a group of orders for more than one client entered as one order. Block trades will be allocated to client accounts in a systematic non-preferential manner. If the block trade does not fill at one price, resulting in partial fills, allocations to client accounts will be made on an average pricing basis. Average pricing amounts to adding up all the buys or sells at their particular price levels, multiplied by the number of contracts at each particular price level, and dividing by the total number of contracts to determine an average price for the whole block trade. If average pricing is unavailable, the high-low method will be used. This method applies the higher fill prices to the higher account numbered clients for both buys and sells, and the lower fill prices to the lower account numbered clients for both purchases and sales.

With respect to separately managed accounts, Prime Brokerage Services ("PBS") gives Commonwealth the ability to execute trades in an account with a broker/dealer other than the custodian of the account. Custodians require a minimum account balance before an account is eligible for PBS. The minimum is \$100,000 at TD Ameritrade. ("TDA"), unless otherwise agreed by TDA. Assets in separately managed accounts with balances below the minimums cannot be aggregated with trades of PBS eligible accounts. The non-eligible clients cannot be included in the allocations with the PBS eligible accounts.

Best Execution

Commonwealth has a fiduciary duty to seek best price and execution of clients' transactions under the circumstances of the particular transactions.

Commonwealth has discretion to execute trades, select broker-dealers and negotiate commissions without obtaining client consent. In selecting broker-dealers, Commonwealth seeks those broker-dealers who it reasonably believes can provide best execution of transactions under the circumstances. The principal factors determining this selection are: (1) a broker's ability to execute the types of transactions occurring in client accounts; (2) the net prices for such transactions; and (3) trading ideas generated by brokers.

Commonwealth will create and from time to time modify an Approved Broker-Dealer list. In order to monitor the executions for the client portfolios, Commonwealth conducts a periodic meeting to evaluate the trading techniques and strategies it uses and performance of the Approved Broker-Dealers it uses. The periodic best execution meetings are attended by the Senior Management, the CCO and PMs. Commonwealth retains minutes of the meetings.

At the meeting, information will be reviewed with respect to commissions paid over the previous quarters, including the extent to which commissions exceeded pre-established ranges and the circumstances that cause the deviation and statistical and other information from consultants and vendors on the execution capabilities of broker-dealers. In addition, Commonwealth will establish an acceptable commission range for trades. The Approved Broker-Dealer List will be modified to reflect conclusions reached at the meeting. Minutes will be taken at all meetings and retained by Commonwealth.

"Best execution" is not synonymous with lowest brokerage commission. Consequently, in a particular transaction a client may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction.

Directed Brokerage Procedures

Commonwealth's standard IMA contains a provision allowing the client to direct Commonwealth to use a particular broker or dealer to execute all transactions for such client's account. In such case, the client will negotiate the terms and arrangement for its account with that broker or dealer and Commonwealth will not seek better execution services or prices from other brokers or dealers or be able to "batch" client transactions for execution through other brokers or dealers with orders for other accounts managed by Commonwealth.

Research and Other Soft Dollar Benefits

Commonwealth Advisors, Inc. has commitments or understandings to trade with specific brokers or to generate a specified level of brokerage commission with a particular broker in order to receive brokerage or research services. These commitments or understandings are generally known as soft dollar arrangements. Certain brokers through whom Commonwealth executes trades may provide unsolicited proprietary research (research created or developed by the broker) to us. This research is used for all client accounts, even though certain clients may not have paid direct commissions to the brokers who provided the research. This research could include a wide variety of reports, charts, publications or proprietary data on economic and political strategy, credit analysis, or stock and bond market conditions and projections. In addition to unsolicited research, certain brokers may provide invitations to attend conferences and meetings with management representatives of issuers or with other analysts and specialists.

Receipt of research from brokers who execute client trades involves conflicts of interest. An adviser that uses client brokerage commissions to obtain research, products, or services receives a benefit because it does not have to produce or pay for the research, products, or services itself. Consequently, the adviser may have an incentive to select or recommend a broker based on its desire to receive research, products, or services rather than a desire to obtain the most favorable execution, which is in the clients' best interest.

Brokers providing research services, even on an unsolicited basis, may charge commissions for executing portfolio transactions that are higher than the amount of commissions that other brokers would charge for effecting the same transactions. Commonwealth Advisors, Inc. will execute portfolio transactions through these brokers only if it has determined that such brokers provide best execution based on the factors described above.

Proprietary Trading

Commonwealth does not maintain a proprietary trading book.

Item 13: REVIEW OF ACCOUNTS

We review every account on a quarterly basis. What we look for are the following:

- How much cash is in the portfolio
- Are the correct types of investments in the portfolio according to your Investment Management Agreement profile
- Performance of the portfolio
- Unexpected changes in the portfolio value
- Un-priced securities

All portfolios are reviewed for earnings, tax status and liquidity by the client servicing team, who are Noel Caldwell or Jerry Warrington, on a quarterly basis before the quarterly statements are mailed out to you.

CA provides a quarterly report for all portfolios. The brokerage firm or custodian where the assets are actually held is also obligated to provide either a monthly report or a quarterly report. At a very minimum all statements from brokerage firms and custodians are required to provide a statement quarterly, but if there is activity (i.e. trades or distributions/withdrawals) then the brokerage or custodian firms usually provide a monthly statement. Additionally, you may have access to your accounts on a daily basis via that firm's website.

The calendar is the factor which triggers the reviews. The reviews are done on a portfolio analysis basis.

Clients with taxable accounts additionally receive annual reports from CA that are needed from income tax reports.

Participants in pooled investment vehicles receive statements of net asset value at the end of each month from their custodian and annual audited financial statements from their respective fund and a report thereon of independent public accountants within one hundred twenty days after the end of each fiscal year. You also receive quarterly performance reports from Commonwealth. All reports are written.

Item 14: CLIENT REFERRALS AND OTHER COMPENSATION

Separately Managed Accounts: With respect to Separately Managed Accounts, CA receives compensation from Federated Investors for managing the client relationships and customer servicing of clients who use Federated Investors for custody and invest in Federated Mutual Funds. CA receives non-research services from TD Ameritrade (TDA). These include access to TDA's institutional website for investment advisors and TDA's order entry system.

Upon occasion, CA, pursuant to a solicitation agreement, may compensate persons and entities for soliciting for or referring clients to CA for account management. All such arrangements comply with Rule 206(4)-3 under the Advisers Act.

ITEM 15: CUSTODY

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. CA urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you.

Effective November 5, 2003, the SEC adopted amendments to the Advisers Act Custody Rule (Rule(4)-2). The amendments modernize the rule by conforming the rule to securities to maintain those assets with broker-dealers, banks or other qualified custodians. The amended rule also provided a definition of “custody” and illustrates circumstances under which an adviser has custody of client funds or securities.

The SEC deems that an adviser has custody of client assets when it holds, “directly or indirectly, client funds or securities or [has] any possession of them.”

The SEC has deemed that an adviser has custody if it has the authority to withdraw funds or securities from a client’s account. More specifically, an adviser authorized to deduct advisory fees or other expenses directly from a client’s account has access to, and therefore has custody of, the client funds and securities in that account.

The SEC has also deemed that an adviser has custody if it acts in any capacity that gives the adviser legal ownership of, or access to, the client funds, or securities. The common instance of this is a firm that acts as general partner and investment adviser to a limited partnership.

Commonwealth has custody of assets in pooled accounts. These assets are in physical custody of “qualified custodians.”

Commonwealth does not have custody of the assets held in separate accounts it manages. These assets are in physical custody of “qualified custodians.”

Advisers with custody of client funds and securities must maintain them with qualified custodians. The qualified custodian must hold the funds or securities in an account either under the client’s name or under the adviser’s name as agent or trustee for its clients. Commonwealth maintains all clients’ accounts’ assets with qualified custodians (prime brokers) and they are held with such qualified custodians in the accounts’ names.

The amended rule requires that the quarterly account statements be delivered to a client for which the adviser has custody unless the client is a pooled investment vehicle that is subject to an audit at least annually and distributes its audited financial statements prepared in accordance with the generally accepted accounting principles to all investors in the vehicle within 120 days of the end of its fiscal year. The custodians for the separately managed accounts provide such statements. The CCO will ensure that the audit for each Fund is completed and the audited financial statements delivered to clients within the 120-day limit of the rule. The offering memorandum for each Fund identifies each qualified custodian used by Commonwealth.

You will receive monthly statements from your “qualified custodian.” Commonwealth urges you to carefully review the statements and compare such official custodian records to the account statements you receive from Commonwealth.

Our statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

Item 16: INVESTMENT DISCRETION

CA has a duty to seek best price and execution of clients' transactions under the circumstances of the particular transactions.

CA has discretion to execute trades, select broker-dealers and negotiate commissions without obtaining client consent. In selecting broker-dealers, CA seeks those broker-dealers that it reasonably believes can provide best execution of transactions under the circumstances. The principal factors determining this selection are: (1) a broker's ability to execute the types of transactions occurring in client accounts; (2) the net prices for such transactions; and (3) trading ideas generated by brokers.

CA may generate "soft dollars" with respect to the trades of the CA Funds and/or the Sand Spring Funds, and if it does so, CA intends to comply with the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. CA makes a good faith determination that the amount of the commission paid is reasonable in relation to the value of the brokerage and research service provided by the broker/dealer.

It is CA's general policy to allocate purchase or sale opportunities on a *pro rata* basis to all appropriate clients. However, CA recognizes that a *pro rata* allocation may not always be feasible or in the best interests of CA's clients. In allocating a transaction, portfolio managers will consider not only the firm's guiding allocation objective, but may also consider specific circumstances related to an account or an investment, such as: (1) cash availability and/or leverage targets in particular client accounts; (2) investment guidelines and limitations imposed by the relevant governing documents for such accounts; (3) principles of diversification of assets; (4) partial fill or trade order; (5) small account size (allocation may be adjusted to minimize custodian fees and transaction charges); (6) undesirable position size (allocation may be adjusted to remove an undesirably small or undesirably large position); (7) applicable investment transfer or assignment restrictions; (8) client tax status; (9) regulatory restrictions; (10) redemption/withdrawal requests from accounts; and (11) a determination by the portfolio manager ("PM") that the investment or sale opportunity is inappropriate in whole or in part for one or more of the accounts within the strategy. As such, account allocations become tailored as necessary to the needs, restrictions and circumstances of each client account.

Block trades are used whenever possible. A block trade is a group of orders for more than one client entered as one order. Block trades will be allocated to client accounts in a systematic non-preferential manner. If the block trade does not fill at one price, resulting in partial fills, allocations to client accounts will be made on an average pricing basis. Average pricing amounts to adding up all the buys or sells at their particular price levels, multiplied by the number of contracts at each particular price level, and dividing by the total number of contracts to determine an average price for the whole block trade. If average pricing is unavailable, the high-low method will be used. This method applies the higher fill prices to the higher account numbered clients for both buys and sells, and the lower fill prices to the lower account numbered clients for both purchases and sales. Certain accounts with balances below the minimums cannot be aggregated for block trades.

Separately Managed Accounts: The client must choose and notify CA of her/his choice of custodians for her/his assets. CA will recommend that the client choose a firm, such as TD Ameritrade Inc. ("TDA") or State Street or Northern Trust Company that will electronically transmit, on a daily basis, the client's holdings and transactions to CA. CA believes that this feature benefits the client by allowing CA to more readily monitor the activity in the account. TDA has a solicitation agreement with CA pursuant to which a large percentage of the securities transactions for the client is usually executed with the client's custodian, if the custodian is a broker/dealer. CA limits its authority by not allowing itself to withdraw

funds or securities from client accounts, and it limits itself as to what it may invest in. CA will not invest in collectibles or non-securitized real estate. CA will not invest in securities in which the client does not wish to invest, provided client notifies CA in writing of the restriction.

Custodians--CA Funds. State Street (State Street Bank & Trust) will act as custodian for the CA Equity Funds under normal commercial terms pursuant to an account agreement ("Account Agreement") As custodian, State Street will provide custody services for the CA Funds' assets.

Custodians--Sand Spring Funds: State Street will act as custodian for Sand Spring III and Sand Spring III Offshore. As custodian, State will provide custody services for the Sand Spring Funds' assets.

Custodians-----CA Recovery Funds: State Street will act as custodian for CA Recovery and CA Recovery Offshore. As custodian, State will provide custody services for the Recovery Funds' assets.

CA usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought and sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, CA observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to CA in writing.

Item 17: VOTING CLIENT SECURITIES

In the "Investment Management Agreement" you can choose to vote or decline to vote proxy material on your account. Most proxy votes are done electronically on a system called "Proxy Edge." You can direct your vote in a particular solicitation by contacting CA. In the event of a conflict between you and us the following procedure will be used to resolve the conflict.

- We will provide you with sufficient information regarding the shareholder vote and explain our potential conflict. We would then obtain your approval before voting
- We could vote the proxy based on a pre-determined voting policy.
- We could vote the proxy based on a third party's recommendation.
- Or, we could ask you to discuss with another third party (attorney for example) and you would let us know how you would prefer to vote.

Also, you may obtain a copy of our proxy voting policy and procedures upon request. You can contact our CCO about questions on a particular solicitation at 225-343-9342.

In regards to the CA domestic funds, we will vote all proxies. For the CA Offshore Funds, the offshore fund's directors will vote all proxies.

In regards to the Sand Spring Funds, the Managing Members may direct Commonwealth Advisors, the funds advisor, to vote all proxies on its behalf.

Item 18: FINANCIAL INFORMATION

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Commonwealth or the integrity of Commonwealth's management.

Criminal or civil actions represent conviction or pleading guilty or no contest to any felony, misdemeanor that involved investments or investment related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses. We also have to disclose if we were named in any pending criminal proceedings that involved in any of the criminal or civil actions listed above; Or, if we were found to have been involved in a violation of an investment-related statute or regulation. And finally, if our firm or a management person was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.

While Commonwealth Advisors has been a target of litigation from one client we fully disagree with the claims of the suit and feel confident that it will have no material bearing on our firm.

A disciplinary event would be if the firm was involved in an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulator agency. We would have to disclose if the firm or management persons were found to have caused an investment-related business to lose its authorization to do business; or was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority which denies, revokes the authority of the firm or management person to act in an investment-related business; bars or suspends the firm or management person associated with an investment-related business; or otherwise significantly limits the firm or management person investment-related activities; or imposes a civil money penalty of more than \$2,500 on the firm or a management person.

Commonwealth Advisors is currently undergoing an SEC examination and investigation; however, the SEC has not issued a statement of any violation against the firm or a management person. The investigation was begun in May 2008.

Commonwealth does not require or solicit any fees in advance from any client.

There are no conditions expected to impair Commonwealth's ability to meet its contractual commitments to clients.

EDUCATION AND BUSINESS STANDARDS

Commonwealth Advisors chooses its employees very carefully. While we have no general standards of education or business experience we do carefully interview and strive to employ team members that work hard to meet and exceed client and company expectations.

EDUCATION AND BUSINESS BACKGROUND

Below you will find an educational and business background for each person on our investment committee or that provides general investment advice to you.

- Walter Alexis Morales was born in 1962. He holds a Bachelor of Science Degree (BS) and Master's degree in Business Administration (MBA) from LSU. He also holds industry certifications as a Certified Financial Planner (CPF) and a Certified Financial Analyst (CFA). Walter is the President, Chief Investment Officer (CIO) of Commonwealth Advisors and Managing Partner with the CA Funds and Sand Spring Capital Fund.
- W. Gerald (Jerry) Warrington, Jr. was born in 1965. He holds a Bachelor of Arts Degree (BA) from the University of South Alabama. Jerry worked as the CA Branch Manager in Mobile, AL office from September 2004 to June 2006. In 2006 he was transferred to the home office in Baton Rouge to serve as Chief Operating Officer (COO). In June 2010 he also became the Chief Compliance Officer (CCO). Prior to working for Commonwealth Advisors Jerry was a broker and supervisor at Charles Schwab from 1998 to 2004.
- Lauri Noel R. Caldwell was born in 1966. She holds a Bachelor of Arts degree (BA) from LSU. Noel is Vice President and Trading/Operations Manager. She has been with the firm since May 1997. Prior to CA Noel worked at Bank One Investment Management and Trust/J P Morgan Chase from 1989 to 1997.
- David Kraus was born in 1966. He holds a Bachelor of Arts (BA) Degree in Finance and a Master's degree in Business Administration (MBA) from the University of Dayton. David has been our Quantitative Analyst since 2008. Prior to working at CA Dave was the Financial Systems Director with NCM Capital markets from 2000 – 2003 and was President of Practical Business Solutions from 2003 – 2008.
- Richard Rizzo was born in 1964. He attended DePaul University for three years. Rick is head trader and analyst and has been with us since 2008. Prior to CA Rick worked as a Head ABS (Asset Backed Securities) Trader at Stone & Youngberg between 2006 and 2008. From 1999 to 2006 Rick was a trader at Banc One Capital Markets/J P Morgan Chase.
- Ashley R. Schexnaildre was born in 1982. He holds a Bachelor of Science degree (BS) in Finance from Providence College and Masters Degree (MS) in accounting from University of Virginia and is a licensed CPA. Ashley joined the firm in 2010. Prior to CA Ashley worked as a Finance Instructor at LSU from 2009 to 2010. From 2004 – 2006 Ashley was a Senior Associate at Ernst & Young LLP and between 2006 to 2008 he worked as a Structured Finance Associate at Global Securitization Services, LLC.

Definition of Professional Designations:

Certified Financial Planner (CFP): Accredited by the National Commission for Certifying Agencies (NCCA), this designation is issued by the Certified Financial Planner Board of Standards (CFPBS) and is granted to individuals who complete a CFP Certification Examination as well as to meet the following prerequisites: bachelor's degree from an accredited college or university and three years of full time personal financial planning experience. In order to qualify, the candidate must complete a CFP-board registered program or hold one of the following titles: CPA, ChFC, Chartered Life Underwriter (CLU), CFA, PhD in business economics, Doctor of Business Administration or Attorney's license. Once issued, the candidate is required to complete 30 hours of continuing education every two years and must continuously meet the standards administered by CFPBS.

Chartered Financial Analyst (CFA): This designation is issued by the CFA Institute and is granted to individuals who meet one of the following prerequisites. Possess an undergraduate degree and four years of professional experience investment decision making; or four years qualified work experience (full time, but not necessarily investment related). The candidate is required to follow a self study program involving 250 hours of study for each of the following three disciplines: Level One: Ethics & Professional Standards; Level Two: Investment Tools & Asset Classes; and Level Three: Portfolio Management & Wealth Planning. Once the designation is issued, no further Continuing Education is required.