

Item 1: Cover Page

CapGen Financial Advisers, LLC

Form ADV, Part 2A: Firm “Brochure”

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This document (the “Brochure”) provides information about the qualifications and business practices of CapGen Capital Advisers, LLC (“CapGen”). If you have any questions about the contents of this brochure, please contact us at (212) 542-6868. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

CapGen may refer to itself as a “registered investment adviser.” Registration does not imply a certain level of skill or training.

February 14, 2012

Item 2: Material Changes

This Brochure, dated February 2012, is a new document prepared by CapGen in accordance with the SEC's new requirements and rules pertaining to Form ADV as established on July 28, 2010.

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

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Item 4: Advisory Business

- A. CapGen provides investment advisory services to private pooled investment vehicles which are exempt from registration as investment companies. CapGen's principal owners are Eugene Ludwig, Robert Goldstein and John Rose. CapGen has been in business since 2007. CapGen has nine (9) employees, six (6) of whom are investment professionals. CapGen's principal place of business is in New York, NY.

CapGen's clients are the private pooled investment vehicles we manage. For the purposes of this Brochure, "clients" refers exclusively to these vehicles and "investors" refers to those individuals and institutions that have committed capital to these vehicles.

CapGen's investors are generally high net worth individuals or institutions. CapGen does not accept capital commitments from investors that do not meet certain thresholds of net worth or investment expertise.

- B. CapGen's investment strategy is to make private equity investments in financial services businesses, primarily in community and regional banks, specialty finance and related services. Typically, CapGen's investments will be privately negotiated directly with the target company. CapGen's advisory services also consist of extensive due diligence prior to making an investment, monitoring investments by taking an active role in the management of portfolio companies, and realizing investments.
- C. CapGen makes investments for each client based on the same investment strategy described above and in Item 8 below. CapGen does not tailor its services to the individual needs of clients.
- CapGen also does not tailor advisory services to the individual needs of investors.
- D. CapGen does not participate in wrap fee programs.
- E. As of September 30, 2011, CapGen manages approximately \$370,000,000 on a discretionary basis.

Item 5: Fees and Compensation

- A. CapGen is compensated for advisory services based on a percentage of committed capital. CapGen is also compensated with a performance-based allocation, as described more fully under Item 6 below.
- B. For the management fee, CapGen bills clients in advance. CapGen deducts its performance-based allocation directly from client assets.
- C. CapGen's clients generally bear the organizational costs associated with CapGen's investment program.

CapGen's clients may also bear certain of their other expenses, which may include (but are not necessarily limited to):

- i. The client's *pro rata* share of all expenses incurred in developing, negotiating and

- structuring prospective or potential investments that are not ultimately made, including any legal, accounting, advisory, consulting and financing expenses in connection therewith (although as a matter of practice, CapGen generally absorbs these costs);
 - ii. Fees, costs and expenses of any administrators, custodians, attorneys and accountants (including audit and certification fees and the costs of financial and tax reports, including the costs of printing and distributing reports investors);
 - iii. All out-of-pocket fees, costs and expenses incurred in holding, developing, negotiating, structuring and disposing of actual investments, including any financing, legal, accounting, advisory, consulting and travel expenses in connection therewith;
 - iv. Brokerage commissions, registration fees and expenses, custodial expenses and other investment costs actually incurred in connection with investments;
 - v. Interest on and fees and expenses arising out of all borrowings made by the clients, including, but not limited to, the arranging thereof;
 - vi. The out-of-pocket costs of any litigation, D&O liability or other insurance and indemnification expense or other extraordinary expense or liability relating to the affairs of the client;
 - vii. Expenses of liquidating the client;
 - viii. Registration expenses and any taxes, fees or governmental charges levied against the client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the client;
 - ix. The expenses of the client's limited partner committee (although as a matter of practice, CapGen generally absorbs these costs); and
 - x. The expenses of any investment banking firm retained to determine the fair market value of unrealized investments in connection with the withdrawal of an investor.
- D. Clients must pay the management fee in advance, although CapGen may elect to bill clients for the management fee at another time, in its sole discretion.
- E. Neither CapGen nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

Certain of CapGen's affiliates, which serve as general partner to its clients, are compensated based on capital appreciation of the client's assets. All of CapGen's clients bear performance-based fees at the same level.

This compensation based on capital appreciation may give CapGen an incentive to make riskier or more speculative investments on behalf of clients than CapGen may make otherwise.

Item 7: Types of Clients

CapGen's clients are private pooled investment vehicles, which are generally organized as limited partnerships of which an affiliate of CapGen serves as the general partner. Interests in these vehicles belong to investors on a *pro rata* basis consistent with their commitment percentage. These interests, and CapGen's clients, are not registered as securities under certain exemptions in

the U.S. securities laws.

CapGen only accepts investors who meet certain high standards for net worth and/or income. Generally, CapGen's investors are high net worth individuals and institutions, which may include pension funds, universities and other high net worth institutions.

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

A. Investment Strategy

CapGen will generally attempt to identify equity investments in community and regional banks, specialty finance companies, and financial-industry service providers. CapGen may also consider opportunistic investments in other segments in the financial services industry that fit its investment criteria (such as asset management, securities brokerages, and insurance), although it does not expect to actively seek potential deals in those sectors. CapGen will seek one or more of the following characteristics when evaluating potential portfolio companies:

- **Attractive/disciplined pricing.** CapGen will seek to invest in companies with solid fundamentals at attractive prices, ideally below or close to book value for banks or significantly below competitive market multiples. CapGen will also look at turnaround opportunities that provide for investing at attractive valuations.
- **Defined or potential market niches.** Portfolio companies must possess strength in a particular assets class or exceptional access to a valuable customer base with limited penetration by larger players. The target does not have to be currently serving that market niche, but CapGen must be able to reposition it to serve that market.
- **Strong barriers to entry.** The distribution network for the company must be defensible; that is, the company is able to protect its customer base, whether through specialized customer knowledge, relationships, superior service or some other distinct advantage.
- **Scalable platform.** The company's platform must be able to support a larger customer base or wider product offering.
- **Strong proven or identified management team.** If the company does not have a team that is experienced and successful, CapGen may attempt to augment and (if necessary) replace the company's existing team.
- **Identified exit opportunities.** Generally, every investment must have an identified exit strategy, whether via the public markets, through strategic buyers or through recapitalization or other restructuring that permits CapGen's clients to exit investments.

After identifying a potential investment, CapGen will perform comprehensive due diligence. This will typically focus on the target company's (i) business model and competitive environment; (ii) regulatory difficulties, if any; (iii) financial structure and performance; (iv) opportunities for value creation; and (v) potential for attractive exit opportunities. CapGen's diligence will generally begin with analysis of public regulatory filings and other public information. If discussions with the company regarding an investment begin, CapGen will perform detailed reviews of the company's business, including in-depth analysis of the company's assets and liabilities and interviews with management.

Once one of CapGen's clients has made an investment, CapGen expects to actively work with its portfolio companies to attempt to realize its investment objectives. CapGen will focus on teaming with or recruiting strong management for its portfolio companies, which will allow the companies

to most effectively implement value-creation initiatives. CapGen will also leverage the senior operating expertise of its investment professionals, many of whom have served as either a chief executive or senior officer of a bank and have deep bank operating experience. This will allow CapGen to both provide strategic oversight to existing management teams and search for seasoned personnel to augment those teams as needed.

CapGen's investment professionals also expect to use their industry experience in providing guidance to portfolio companies in a range of other issues, which may include:

- Working with regulators to resolve issues;
- Maximizing revenue from the existing customer base;
- Identifying new business lines;
- Boosting marketing and sales efforts;
- Cutting costs and selling off unprofitable lines of business, poorly performing loan portfolios and/or other assets;
- Improving financial and IT systems and customer service;
- Strengthening controls and risk management procedures; and
- Leading add-on acquisition initiatives.

B. Risks Associated with CapGen's Investment Strategy and Methods of Analysis

Prospective investors should be aware that an investment with CapGen involves a high degree of risk and each investor should carefully consider all applicable risks. There can be no assurance that investment objectives will be met or that CapGen's investment program be carried out successfully or that an investor will receive a return of its capital.

Past Performance Not Indicative of Future Results

There can be no assurance that CapGen will generate investment returns commensurate with past performance. While certain of CapGen's senior personnel have substantial prior experience in making private equity investments for their own account in, and managing, financial services companies, none of CapGen's senior management personnel has previously managed a private equity investment fund or program.

No Assurance of Investment Return

There can be no assurance that CapGen will be able to choose, make and realize investments in any particular company or portfolio of companies. There can be no assurance that clients will generate returns for investors or that returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There can be no assurance that the investment objectives of clients will be achieved or that investors will receive a return on their capital. An investment with CapGen should only be considered by persons who can afford a loss of their entire investment.

Financial Services Industry Risk Factors

CapGen expects that its clients' investments will be primarily in companies in the financial services industry.

Financial services institutions typically have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal

policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties, and the level and volatility of trading markets. Such factors can impact customers and counterparties of financial services institutions and may impact the value of financial instruments held by financial services institutions. Fluctuations in interest rates, which affect the value of assets and the cost of funding liabilities, are not predictable or controllable, may vary and may impact economic activity in various regions.

The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal or other policies that are adopted by various governmental authorities and international bodies. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial services institutions. There can be no assurance that a particular banking or credit institution will not experience a material adverse effect on its net interest income in a changing interest rate environment. In particular, CapGen will focus on investment opportunities in community and regional banks for clients. Community banking is largely based on a lending business. Hence, these institutions could be particularly affected by a change in the interest rate environment. Factors such as the liquidity of the global financial markets, the level and volatility of prices of financial instruments, investor sentiment, and the availability and cost of credit may significantly affect the activity levels of customers with respect to size, number and timing of transactions. A market downturn would likely lead to a decline in the volume of transactions that financial services institutions execute for their customers and thus lead to a decline in revenues from fees, commissions and spreads.

Financial services institutions operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities at all governmental levels. Failure to comply with any of these laws, rules or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties, fines, suspension or expulsion, and termination of deposit insurance, which may have material adverse effects.

Concentration of Investments in the Financial Services Industry

Portfolio companies are expected to be concentrated in the financial services industry. Concentration in a single industry may involve risks greater than those generally associated with more diversified private equity funds, including significant fluctuations in returns. Although CapGen intends to diversify the client portfolios within the financial services industry, the performance of clients could be adversely affected if it fails to do so. In addition, CapGen intends to concentrate client investments in the banking sector, and clients could be adversely affected if the business conditions underlying the banking sector were to deteriorate or the regulatory regime governing such sector were to change.

Risk of Limited Number of Investments

Since clients may only make a limited number of investments and such investments generally will involve a high degree of risk, poor performance by even a single portfolio company could severely affect the total returns to investors.

Leverage

The capital structures of many financial services companies typically include substantial leverage.

Although it is currently not contemplated that clients will use any leverage in consummating investments, should such investments be completed through the use of significant leverage, certain adverse consequences could occur. Leveraged capital structures and the use of leverage in financing investments increase the exposure of a portfolio company to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the portfolio company or its industry and make the portfolio company more sensitive to declines in revenues and to increases in expenses. If a portfolio company defaults on secured indebtedness, the lender may foreclose and client could lose its entire investment in the portfolio company.

Risks in Effecting Operating Improvements

In some cases, the success of a client's investment strategy will depend, in part, on the ability of CapGen to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that CapGen will be able to successfully identify and implement such restructuring programs and improvements.

C. Risks Regarding Particular Types of Securities

CapGen's clients invest primarily in securities in companies in the financial services industry. As disclosed above, many diverse factors outside of CapGen's control, such as trends in the broader economy or in international financial markets, may have a material adverse effect on investments in the financial services industry.

Competitive Market for Investment Opportunities

CapGen expects to encounter competition from other organizations having similar investment objectives. Potential competitors include banks, other investment partnerships and corporations, business development companies, strategic industry acquirers and other financial investors investing directly or through affiliates. Further, over the past several years, an ever-increasing number of private equity funds have been formed (and many such private equity funds have grown in size). Additional funds or programs with objectives broadly similar to those of the participants in the Program may be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial resources and more personnel than CapGen. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to clients and adversely affecting the terms upon which investments can be made. There can be no assurance that CapGen will be able to identify or consummate investments satisfying the investment criteria of clients or acquire them at appropriate prices or that investors will be able to fully invest their committed capital.

Illiquid and Long-Term Investments

Many client investments will be highly illiquid and there can be no assurance that clients will be able to realize such investments in a timely manner. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in-kind to investors. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the investment is made. Clients will generally acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act, or in a private placement or other transaction exempt from registration under the Securities Act. In some cases, clients may be prohibited by contract from selling certain securities for a period of time. Even where a client holds freely tradable publicly traded securities, such client's position may represent a significant portion of the outstanding public float of a particular company, creating a degree of

illiquidity in the event that such client changed its investment decision or was unable to acquire control and wished to dispose of or reduce its position in such company by selling shares into the market.

Additional Capital

Certain of the portfolio companies, especially those in a development or “platform” phase, may be expected to require additional financing to satisfy their working capital requirements or growth or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular portfolio company. Each such round of financing is typically intended to provide a portfolio company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a company may have to raise additional capital at a price unfavorable to the existing investors. In addition, a client may make additional equity investments or exercise warrants, options or convertible securities when a subsequent financing is planned, or to protect such client’s investment when such portfolio company’s performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of clients or any portfolio company. There can be no assurance that the portfolio companies will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

Troubled Companies

Clients may invest in portfolio companies that are in various stages of correcting previous operational or regulatory problems. Some or all of these portfolio companies may operate at a loss or with substantial variation in operating profits and losses from period to period, and may have a need for substantial additional capital to support expansion or to achieve or maintain a stable operating position. If turnarounds are not achieved, there clients may not be able to divest themselves of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons.

Certain Bank and Financial Services Regulatory Considerations

Various agencies and departments of the U.S. government and state governments regulate the banking and financial services sector in the United States. New and existing regulations and burdens of regulatory compliance may have a material adverse effect on portfolio companies that operate in these industries. In order to comply with banking laws, rules and regulations, clients may be required to invest in a manner that may not be as advantageous as the manner of making investments that are not subject to such laws, rules and regulations.

Item 9: Disciplinary Information

There are no material legal or disciplinary events that are material to a client’s or investor’s evaluation of CapGen’s advisory business or the integrity of CapGen’s management.

Item 10: Other Financial Industry Activities and Affiliations

- A. Neither CapGen nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

- B. Neither CapGen nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. Since CapGen invests heavily in banks, CapGen's clients are registered with the Federal Reserve Board of Governors as bank holdings companies. Except for in its role as investment adviser, CapGen does not do business with its clients or their portfolio companies.
- D. CapGen does not recommend or select other investment advisers for clients.

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

- A. As an investment adviser, CapGen stands in a position of trust and confidence with respect to its clients. CapGen has a fiduciary duty to place the interests of its clients before its own interests of and the interests of its employees. All of CapGen's personnel must put the interests of clients before their own personal interests and must act honestly and fairly in dealings with clients. All of CapGen's personnel must also comply with all federal and other applicable securities laws. CapGen has established a code of ethics to establish these rules of conduct for its personnel.

As part of its code of ethics, CapGen has adopted a personal trading policy requiring all personnel to disclose all holdings in personal trading accounts and all personal securities transactions in a timely manner. The Firm also maintains a list of companies about which a determination has been made that it is prudent to restrict trading activity by the Firm and/or its personnel. Generally, an employee may not trade securities of a company included on this list; however, exceptions may be granted under certain circumstances if pre-clearance is granted (e.g., in a "window period" of a public company of which CapGen is an "insider").

CapGen has also adopted policies regarding the control of non-public information and gifts and entertainment. CapGen's code of ethics is designed to promote the ethical behavior of all of the Firm's personnel and to ensure compliance with applicable regulation and best practices. CapGen will provide a copy of its code of ethics to any investor upon request.

- B. CapGen does not buy or sell for client accounts securities in which CapGen or a related person has a material financial interest.
- C. As permitted in its clients' organizational documents, CapGen or an affiliate may co-invest alongside clients, provided that the co-investment is on the same economic terms and conditions as client investments and that it shall be disposed of concurrently with the applicable client investment. CapGen's portion of the investment shall not exceed 5% of the amount otherwise available for investment.

CapGen generally does not permit employees to transact in securities recommended to clients in personal trading accounts.

- D. As disclosed above, CapGen is permitted to co-invest alongside clients, but only on the same economic terms and conditions. CapGen generally does not allow employees to invest in the same securities recommended to clients for personal accounts.

Item 12: Brokerage Practices

- A. Due to the nature of CapGen's investment strategy, CapGen expects substantially all of its investments to be privately negotiated directly with the counterparty. As such, CapGen does not anticipate utilizing brokers or dealers regularly. In rare cases where CapGen determines to utilize a broker or a dealer to transact on behalf of clients, CapGen shall evaluate such broker or dealer based on a range of factors, including without limitation commission price, willingness to commit capital, ability to execute the desired transaction and other factors.
- B. Due to regulatory reasons surrounding CapGen's investments in bank holding companies, CapGen does not aggregate the purchase or sale of securities for various clients. However, the underlying investors in CapGen's investment program participate in all investments on a *pro rata* basis.

Item 13: Review of Accounts

- A. CapGen's investment professionals are continuously aware of client holdings and are responsible for reviewing client holdings on an ongoing basis. CapGen is also closely involved in the management of its portfolio companies, including holding seats on their boards of directors. This involvement allows CapGen to continuously review the status of its various investments.
- B. Each investment will be reviewed whenever there is a major event affecting the portfolio company or its exit options. In these reviews, CapGen will re-examine its investment hypothesis, update forecasts of portfolio company performance and project the investment's return opportunity before deciding the timing for realization.
- C. CapGen provides each investor with unaudited financial statements and capital account statements on a quarterly basis. CapGen provides each investor with audited financial statements on an annual basis.

Item 14: Client Referrals and Other Compensation

- A. Only clients compensate CapGen and its employees for providing investment advice to clients.
- B. CapGen does not compensate any third parties for client referrals.

Item 15: Custody

CapGen is deemed to have custody of client funds and securities because an affiliate serves as the general partner to each of its clients.

When CapGen identifies an investment that is suitable for its clients, the general partner issues a capital call to investors for the capital necessary to make the investment. This capital will be held with a qualified custodian until the investment is made, and account statements will be sent to clients by this qualified custodian directly for any periods when cash is custodied by CapGen.

CapGen's clients may from time to time receive publicly traded equity securities in connection with their investments. CapGen shall maintain all publicly traded equity securities with a qualified custodian.

Additionally, CapGen shall deliver to investors independently audited financial statements of its clients prepared in accordance with generally accepted accounting principles to its clients' investors no less frequently than annually, within 90 days of fiscal year end.

Item 16: Investment Discretion

CapGen has discretionary authority over any cash or securities accounts that it may establish for the purpose of custodial client assets. CapGen is granted power of attorney over such assets and the discretionary authority to make any investments deemed suitable for clients and within the investment objectives of its clients.

Item 17: Voting Client Securities

CapGen's associated general partner entities have full authority to vote client securities.

If the clients hold public securities with voting authority, CapGen shall determine to vote in the best interests of clients. CapGen expects to frequently take an active role in the management of its portfolio companies. CapGen believes that its investment professionals are able to judge what is in the best interests of the company. Therefore, CapGen will generally vote with management. However, in certain situations (e.g., when CapGen believes management should be replaced), CapGen may vote against management.

Item 18: Financial Information

CapGen does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

CapGen has not been subject of a bankruptcy petition at any time during the past ten years

Item 19: Requirements for State-Registered Advisers

CapGen is not currently registered or registering with a state securities authority.