



**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV  
FIRM BROCHURE**

**PALESTRA CAPITAL MANAGEMENT LLC**

March 2015

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This brochure provides information about the qualifications and business practices of Palestra Capital Management LLC ("Palestra" or the "Company"). If you have any questions about the contents of this brochure, please contact us at (212) 291-7480. Palestra is registered as an investment adviser with the United States Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training, and the information in this brochure has not been verified by the SEC or any state securities authority.

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

**ITEM 2**  
**MATERIAL CHANGES**

Palestra's operations have not changed materially since the time of its last Form ADV filing in March 2014.

**ITEM 3**  
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## **ITEM 4**

### **ADVISORY BUSINESS**

Palestra was founded in September 2011 by Jeremy Schiffman and Andrew Immerman. Mr. Schiffman and Mr. Immerman are equal owners of Palestra and serve as the Company's portfolio managers.

Due to the use of leverage and short selling, the Company's "regulatory assets under management," as defined by the SEC, may exceed the private funds' net capital. As of December 31, 2014, Palestra's regulatory assets under management were \$1,756.7 million. All of these assets under management were managed on a discretionary basis.

Most or all investments are made through the Palestra Capital Master Fund, L.P., and investors contribute capital through affiliated onshore and offshore feeder funds. References to Palestra's "private funds" include the master fund and each feeder fund. All information about Palestra and the private funds contained in this brochure is qualified in its entirety by the information in the private funds' confidential offering materials.

Palestra manages its private funds using fundamental, research-intensive analytic processes. The Company primarily makes long and short investments in equities, and will also selectively invest in credit and derivative opportunities. Investments are tailored to reflect the stated investment objectives and restrictions of the Company's private funds, but will generally not be tailored to reflect the needs or restrictions of individual investors.

## **ITEM 5**

### **FEES AND COMPENSATION**

Palestra and its affiliate debit fees directly from the private funds; investors are not invoiced separately for fees.

Palestra and its affiliate may waive or modify the management fees and incentive allocations for certain investors, including employees, relatives of employees, and certain large or strategic investors.

In addition to management fees and incentive allocations, investors indirectly bear costs associated with the private funds' operations. These costs, which are more fully described in the private funds' confidential offering materials, are for services including fund administration, legal and regulatory compliance, audit and tax preparation, custody, research (including research-related travel) and brokerage. The private funds may invest in other pooled investment vehicles, in which case the private funds will be indirectly responsible for their pro-rata share of the expenses of those pools.

Complete information regarding private fund expenses are provided in the relevant private fund offering memoranda. Investors should review the confidential offering memorandum of the private fund in which they are invested to fully understand the types of fees and expenses paid for by the relevant private fund.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Because Palestra's affiliate has the opportunity to collect incentive allocations, the Company have an incentive to recommend investments that are more speculative than would otherwise be prudent in an effort to generate outsized gains. Palestra seeks to mitigate this conflict of interest by providing investors with monthly risk reports and quarterly letters discussing the private funds' investment activities.

Some investment managers experience a conflict of interest because they manage accounts with differing fee structures, which could lead to the favorable treatment of accounts paying higher fees at the expense of accounts paying lower fees. Palestra seeks to mitigate this conflict of interest by making substantially all investments through a single master fund.

**ITEM 7**  
**TYPES OF CLIENTS**

Palestra provides investment advice to the private funds. Investors must be either:

- both “qualified purchasers” as defined in the 1940 Act and “accredited investors” as defined in the Securities Act of 1933 or
- non-United States persons.

Per the private funds confidential offering memorandums, investments in the private funds are subject to a \$2 million minimum for initial investments only. An affiliate of Palestra has the authority to waive the minimum investment at its discretion, and has done so for certain investors.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **Methods of Analysis**

We generate investment ideas by evaluating our investment universe and searching for opportunities where our fundamental-based investment approach and industry expertise enable us to develop a differentiated view relative to the market. We identify these opportunities through bottom-up work on companies, industry-specific thematic work, special situations and screening.

We conduct rigorous, fundamental analysis of a potential investment, its products and services and the industry in which it operates. We execute a repeatable process characterized by a number of tasks including the following: a review of relevant public documents including company filings, Wall Street and independent third-party research, and trade publications, an analysis of historical financial results, discussions with company management and competitors, customers and suppliers, and consultations with industry experts, legal and accounting firms, and other proprietary contacts that our investment team has cultivated.

We will evaluate the intrinsic value of a potential investment through multiple lenses, including traditional metrics such as discounted cash flow and comparable company analysis and non-traditional metrics such as strategic value, break-up scenarios and restructuring potential. We will typically analyze several scenarios in our assessment of risk and reward including both micro factors relating to the company and macro factors relating to the broader economy. We utilize our evaluation of risk, reward, and conviction in order to determine the appropriate size of any given long or short investment.

#### **Investment Strategies**

Palestra seeks to own securities that we believe trade at a significant discount to intrinsic value and to sell short securities we believe trade at a premium to intrinsic value. The Company focuses where we believe our fundamental-based approach to industry and company-specific research provide us with a differentiated view relative to the market. Lastly, we seek to evaluate the timeliness and path to value of each investment.

Long Investments. Typical long investments may include the following:

- Contrarian and Deep-Value Opportunities: These situations are characterized by securities trading at deep discounts to intrinsic value predicated on fear or pessimism, often occurring after a period of underperformance.
- Companies with Underappreciated Quality or Growth: These companies may trade at reasonable multiples relative to the broader market, but are undergoing a positive shift that has yet to be fully appreciated. Examples include companies experiencing improving unit economics or increasing returns to scale which have yet to be recognized by the market.
- Companies Nearing Inflection Points: These opportunities are characterized by inflection points in growth or profitability which can result from the change in a

variety of factors including end-market supply and demand dynamics, product cycles or pricing power.

- Special Situations: Examples include takeover situations, restructurings, spin-offs, and “hidden assets” such as land, reserves or other non-EBITDA-producing assets that are not being appropriately valued by the market.

Short Investments. Palestra views short investing as an integral part of our investment strategy. Short investments are intended to be profit contributors in addition to helping protect capital in the event of a significant decline in market indices. In general, each short position must stand on its own, although we may use a short position as a hedge if deemed appropriate. We utilize the same investment framework for short investments as we do for long investments, but given the higher loss potential of a short investment, we generally seek to be more tactical and give careful consideration to the risk of loss.

The characteristics of typical short investments are generally the opposite of the long investments described previously. Examples include the following:

- Companies Facing Increasing Competition: These short investments are characterized by increasing competition relative to history, which can be driven by current competitors, new entrants, or from substitute products or services. In our experience, when competition increases in a company’s market, it often results in negative earnings surprises and multiple compression for an extended period of time.
- Companies Transitioning from “Great” to “Good”: Companies with historically high growth rates or margins are often rewarded with high earnings multiples despite, in certain instances, lower growth prospects going forward. In other words, the multiple assigned to these companies may be backward looking, not forward looking. Examples may include companies experiencing an end to “low-hanging” market share gains or companies historically viewed as “growth stocks” reaching a downward inflection point in their growth trajectory.
- Companies with Unsustainable Business Models: These investments can be broken into two buckets. First, younger companies who, despite often robust revenue growth, have business models that are unlikely to create enduring shareholder profits and economic value. Second, companies who have taken advantage of temporary opportunities in the marketplace to earn high returns, but cannot defend these returns over time due to various factors including low barriers to entry or poor competitive positioning.
- Other common characteristics of short investments include poor management (characterized often by poor capital allocation decisions), declining returns on invested capital, aggressive or fraudulent accounting, and cyclical growth that is perceived by the market to be secular.

## **Material Risks**

An investment in the private funds is speculative and is not intended as a complete investment program. It is designed only for experienced and sophisticated persons who are able to bear the risk of the substantial impairment or loss of their entire investment in the private funds. The following information is intended to present a summary of the material risks associated with an investment in the private funds. Any prospective investor in the private funds should carefully review the risk factors described in the private funds' confidential offering materials.

### **Nature of Investments**

Palestra has broad discretion in making investments for the private funds. Investments will generally consist of equity securities, equity-related instruments, credit instruments and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that the Company will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the private funds' activities and the value of their investments. In addition, the value of the private funds' portfolios may fluctuate as the general level of interest rates fluctuates. No guarantee or representation is made that the private funds' investment objectives will be achieved.

### **Equity-Related Instruments in General**

Palestra typically uses equity-related instruments in its investment program. Certain options and other equity-related instruments are subject to various types of risks, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, equity-related instruments can involve significant economic leverage and, in some cases, involve significant risks of loss.

### **Use of Leverage**

The private funds typically utilize leverage. This results in the private funds controlling substantially more assets than they have equity. Leverage increases the private funds' returns if the private funds earn greater returns on investments purchased with borrowed funds than the private funds' cost of borrowing. However, the use of leverage exposes the private funds to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the private funds not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the private funds' cost of borrowing. In the event of a sudden, precipitous drop in value of the private funds' assets, the private funds might not be able to liquidate assets quickly enough to repay their borrowings, further magnifying losses. In an unsettled credit environment, the Company may find it difficult or impossible to obtain leverage for the private funds. In such event, the private funds could find it difficult to implement their strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in Palestra being forced to unwind positions quickly and at prices below what the Company deems to be fair value for such positions.

### Short Sales

The private funds engage in short sales. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the private funds' portfolios. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

### Options

The private funds occasionally purchase and sell options. The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

### Small to Medium Capitalization Companies

The private funds may invest a portion of their assets in the stocks of companies with small-to medium-sized market capitalizations. While the Company believes these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

### Non-U.S. Securities

The private funds occasionally invest in non-U.S. securities. Investing in securities of non-U.S. governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

### Lack of Diversification

The private funds' portfolios may not be as diversified as other investment vehicles. Accordingly, the private funds' portfolios may be subject to more rapid change in value than would be the case if the private funds were required to maintain a wide diversification.

### Portfolio Turnover

The investment strategy of the private funds generally requires Palestra to actively trade the private funds' portfolios, and as a result, turnover and brokerage commission expenses of the private funds may significantly exceed those of other investment entities of comparable size. Active trading can also increase the tax burden of clients and investors.

### Counterparty Risk

The private funds occasionally invest in swaps, "synthetic" or derivative instruments, repurchase agreements, forward contracts, certain types of options or other customized financial instruments, or, in certain circumstances, non-U.S. securities. When investing in these types of instruments, the private funds take the risk of non-performance by the other party to the contract. This risk may include credit risk of the counterparty and the risk of settlement default. This risk may differ materially from those entailed in exchange-traded transactions that generally are supported by guarantees of clearing organizations, daily mark-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

### Brokerage and Custodial Risk

There are risks involved in dealing with the custodians or prime brokers who settle fund trades. Although Palestra monitors the prime brokers and believes that they are appropriate custodians, there is no guarantee that the prime brokers, or any other custodian that the private funds may use from time to time, will not become bankrupt or insolvent. While both the U.S. Bankruptcy Code and the U.S. Securities Investor Protection Act of 1970 seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of fund assets, the private funds would not incur losses due to their assets being unavailable for a period of time, the ultimate receipt of less than full recovery of their assets, or both.

The private funds and/or the custodians used by the private funds may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the private funds. The prime brokers may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the private funds as a result of the bankruptcy or insolvency of any such sub-custodian. The private funds may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to the private funds. Under certain circumstances, including certain transactions where the private funds' assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the prime brokers, or where the private funds' assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the private funds and the private funds could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or

mismanagement in certain non-U.S. jurisdictions, the ability of the private funds to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the private funds may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or time problems associated with enforcing the private funds' rights to their assets in the case of a bankruptcy or insolvency of any such party.

#### Lack of Liquidity of Fund Investments

While Palestra expects the vast majority of the private funds' portfolios to be liquid, fund assets may, at any given time, include securities and other financial instruments or obligations that are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

#### Limited Redemption and Transfer Rights

An investor in Palestra's private funds generally will be permitted to redeem all or any portion of its holdings only in accordance with the terms described in the private funds' confidential offering materials. Transfers of interests will be permitted only with the written consent of the private funds' directors. Accordingly, investments should only be made by investors willing and able to commit their assets for an appreciable period of time.

#### Incentive Allocation

The allocation of a percentage of the private funds' net profits to an affiliate of Palestra creates an incentive to make investments that are riskier or more speculative than would be the case if this allocation were not made. Since the allocation is calculated on a basis that includes unrealized appreciation of assets, such allocation may be greater than if it were based solely on realized gains.

#### Strategic Investors

Strategic investors will be granted certain rights in exchange for a commitment to make a significant seed investment in the private funds. The strategic investors' investment should not be construed as a recommendation to other prospective investors. The strategic investors will not be involved in the management or performance of the private funds or Palestra. Among other rights, the strategic investors will be entitled to receive (i) a portion of the management fee and incentive allocation, (ii) capacity rights, (iii) special redemption rights in limited circumstances, and (iv) reports on a more frequent basis. The strategic investors may exit, in whole or in part, without notice to other investors. In the event that the strategic investors were to make a substantial redemption, such event may have an adverse effect on the private funds. In addition, the private funds will indemnify the strategic investors in accordance with the relevant seed investment agreement with each strategic investor.

#### Reliance on Andrew Immerman and Jeremy Schiffman

The private funds rely heavily on the services of the managing members of the Company, and Messrs. Andrew Immerman and Jeremy Schiffman. Messrs. Immerman and Schiffman are responsible for all of the major decisions affecting the private funds. Should Messrs. Immerman or Schiffman determine to discontinue managing the affairs of, or withdraw from, the Company or

should Mr. Immerman or Mr. Schiffman die, be incapacitated or, for some other reason, be unable to effectively manage the affairs of the Company, the business and results of the operations of the private funds may be adversely affected.

#### Side Letters

The private funds have entered into agreements ("Side Letters") with certain prospective or existing investors whereby such investors are subject to terms and conditions that are different or more advantageous than those that are offered or available to other investors. For example, such terms and conditions may provide for special rights to make future investments in the private funds, other investment vehicles or managed accounts; special redemption rights, relating to frequency or notice; a reduction or rebate in fees or redemption charges to be paid by the investor and/or other terms; rights to receive reports from the private funds on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the private funds and such investors. The modifications are solely at the discretion of the private funds and may, among other things, be based on the size of the investor's investment in the private funds or affiliated investment entity, an agreement by an investor to maintain such investment in the private funds for a significant period of time, or other similar commitment by an investor to the private funds.

#### Non-Disclosure of Positions

In an effort to protect the confidentiality of their positions, the private funds generally will not disclose all of their positions to investors on an ongoing basis, although the Company, in its sole discretion, may permit such disclosure on a select basis to certain investors, if it determines that there are sufficient confidentiality agreements and procedures in place. The private funds' directors, in their sole discretion, may determine to issue a new class of shares to such investors in these circumstances.

#### Potential Conflicts of Interest

The Company will use its best efforts in connection with the purposes and objectives of the private funds and will devote so much of its time and effort to the affairs of the private funds as may, in its judgment, be necessary to accomplish the purposes of the private funds. Although it currently does not manage any client assets other than the private funds, under the terms of the private funds' management agreement, Palestra and its affiliate may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the private funds. Without limiting the generality of the foregoing, Palestra and its affiliate may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others, may have, make and maintain investments in their own name or through other entities and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. Such other entities or accounts may have investment objectives or may implement investment strategies similar or different to those of the private funds. In addition, Palestra and its affiliate may, through other investments, including other investment funds, have interests in the securities in which the private funds invest as well as interests in investments in which the private funds do not invest. Palestra and its affiliate may give advice or take action with respect to such other entities or accounts that differs from the advice given with respect to the private funds. To the

extent a particular investment is suitable for both the private funds and other clients of Palestra or its affiliate, such investments will be allocated between the private funds and the other clients in a manner that Palestra and its affiliate determines are fair and equitable under the circumstances to all clients, including the private funds.

As a result of the foregoing, if Palestra accepts additional clients, Palestra and its affiliate will have conflicts of interest in allocating their time and activity between the private funds and other client, in allocating investments among the private funds and other clients and in effecting transactions for the private funds and other clients, including ones in which the Company or its affiliate may have a greater financial interest.

In addition, purchase and sale transactions (including swaps) may be effected between the private funds and the other entities or accounts subject to the following guidelines: (i) such transactions shall be effected for cash consideration at the current market price of the particular securities, and (ii) no extraordinary brokerage commissions or fees (i.e., except for customary transfer fees or commissions) or other remuneration shall be paid in connection with any such transaction.

From the standpoint of the private funds, simultaneous identical portfolio transactions for the private funds and the other clients may tend to decrease the prices received, and increase the prices required to be paid, by the private funds for portfolio sales and purchases. Where less than the maximum desired number of shares of a particular security to be purchased is available at a favorable price, the shares purchased will be allocated among the private funds and the other clients in an equitable manner as determined by Palestra or its affiliate. Further, it may not always be possible or consistent with the investment objectives of the various persons or entities described above and of the private funds for the same investment positions to be taken or liquidated at the same time or at the same price; however, all transactions will be made on a “best execution” basis.

It should be noted that the private funds’ prime brokers and administrator each acts as prime broker and administrator for other funds and thus may have conflicts from time to time.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

Neither Palestra nor any management person has been involved in legal or disciplinary events that would be material to a current or prospective client or investor.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As described above, Palestra's private funds received seed investments from two strategic investors that are unaffiliated with Palestra. These strategic investors are financial services firms that are, or have affiliates that are, investment advisers and broker-dealers. The private funds' strategic investors may also be, or have affiliates that are, active in other financial services capacities.

Palestra and the private funds may trade through affiliates of the strategic investors. The Company will trade with affiliates of the strategic investors only when such transactions are expected to offer best execution. Palestra's executives, including the Chief Compliance Officer, will periodically evaluate the execution quality obtained from all trading counterparties. Palestra and the private funds may receive other types of products and services from affiliates of the strategic investors, including prime brokerage services. The Company and the private funds will seek to negotiate the purchase of products and services from affiliates of the strategic investors at arm's length, and the Chief Compliance Officer will monitor the use of such vendors on an ongoing basis.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

Palestra has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires Palestra and its employees to act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Palestra's restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of Palestra's code of ethics is available upon request.

Palestra's employees are generally prohibited from buying publicly traded common stocks. Employees may sell other types of securities that were previously purchased, so it is possible that an employee and a client could transact in the same security at or around the same time. However, the code of ethics prohibits personal trading that would give even the appearance of impropriety, and employee transactions are reviewed by the Chief Compliance Officer on a quarterly basis.

## **ITEM 12**

### **BROKERAGE PRACTICES**

Palestra seeks to transact with broker-dealers that offer best execution. The Company's Managing Members, Chief Compliance Officer and Trader meet at least twice per year to evaluate the execution quality that the Company has received. In evaluating execution quality, the Company considers a variety of qualitative and quantitative factors including, among other things, price and transaction costs, speed, availability of trading algorithms, access to IPOs, expertise in trading certain types of securities, responsiveness, back-office controls, and the provision of research. Although cost is an important factor in Palestra's selection of trading counterparties, the Company may trade with broker-dealers that charge more than the lowest available commissions. Palestra does not consider the referral of investors when evaluating execution quality or setting long-term commission targets.

Palestra receives research products and services from the broker-dealers with which it trades. All such soft dollar benefits are consistent with the regulatory safe harbor described in Section 28(e) of the Securities Exchange Act of 1934. Soft dollar benefits may include, among other things, proprietary research generated by broker-dealers, as well as Bloomberg software, third party analysis, reports, and data. Palestra may also use soft dollar benefits to consult with paid industry experts, and to pay for the Company's order management system. Because Palestra manages a single private fund complex, all benefits associated with soft dollars accrue to the same client that paid the associated commissions. Palestra does not aggregate and allocate orders because all, or substantially all, investor assets are invested through one private master fund.

In some instances, the Adviser obtains a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). Such determination will be made based on the actual use of the product or service by the Adviser's personnel. The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions. The determination of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and clients.

Palestra's receipt of soft dollar benefits presents a conflict of interest because trading activity by the private funds is used to pay for research that the Company could pay for using hard dollars or potentially generate internally. Palestra could also have an incentive to trade through broker-dealers that offer soft dollar credits, even though other broker-dealers might offer superior or lower-cost execution. The Company's selection of trading counterparties and use of soft dollars is reviewed in connection with periodic best execution reviews.

If Palestra makes an error while placing a trade, the Company will document the error and seek to correct it promptly in a way that mitigates any losses. Any gains or losses associated with trading errors will be borne by the private funds, except that losses associated with errors due to gross

negligence or willful misconduct will be borne by Palestra. The Company is subject to a conflict of interest in determining whether an error was due to gross negligence or willful misconduct.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

Palestra's founders serve as the Company's co-portfolio managers. The co-portfolio managers monitor the private funds' positions on an ongoing basis. Geographic, political, macro-economic, and/or issuer-specific events may prompt particular scrutiny of the Company's investments, but even in the absence of material events the co-portfolio managers are actively involved in the monitoring of the private funds' investments on a daily basis.

Palestra will send investors weekly and monthly performance estimates, as well as unaudited monthly investor statements. The Company will also provide current and prospective investors with monthly statistical reports and quarterly letters. The quarterly letters will generally include qualitative discussions of the portfolio's positioning, outlook and performance.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

Palestra does not compensate any third parties for client or investor referrals.

## **ITEM 15**

### **CUSTODY**

The Company is deemed to have custody over the private funds' assets because an affiliate of Palestra serve as the general partner to the private funds' various legal entities. All of the private funds' assets are held by qualified custodians, and audited financial statements for the private funds are distributed to all investors on an annual basis within no greater than 120 days of the fiscal year end.

**ITEM 16**  
**INVESTMENT DISCRETION**

Palestra has investment discretion over the private funds' assets. The private funds grant the Company discretionary authority through the execution of an investment management agreement.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, Palestra has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Palestra receives will be treated in accordance with these policies and procedures. Investors in the private funds cannot influence the Company's proxy voting activities, but may request a copy of Palestra's written policies and procedures, as well as information regarding specific votes cast. Investors should contact the Chief Compliance Officer, John Rogers, at 212-291-7485 for more information about proxy voting.

For each routine proxy that does not pose an apparent conflict of interest, the Chief Compliance Officer will be responsible for casting a vote that is believed to be in the best interests of the private funds. Palestra anticipates that the Chief Compliance Officer will generally vote in accordance with management recommendations for such routine proxies.

If a proxy appears to be material, the Chief Compliance Officer will vote in accordance with instructions provided by the Managing Member and Research Analyst who are most familiar with the position.

If a proxy appears to pose a conflict of interest, the Chief Compliance Officer will convene a meeting with both Managing Members. The Chief Compliance Officer will describe the proxy vote under consideration and identify the perceived conflict of interest. The Chief Compliance Officer and Managing Members will review any documentation associated with the proxy vote and seek to determine how to vote in the private funds' best interests. If the Chief Compliance Officer and Managing Members reach a unanimous voting decision then the Chief Compliance Officer will vote the proxy accordingly. If the Chief Compliance Officer and Managing Members do not reach a unanimous conclusion, they will consult with a professional proxy voting service or with outside legal counsel. The voting recommendation from the voting service or outside legal counsel will be binding on Palestra.

**ITEM 18**  
**FINANCIAL INFORMATION**

Palestra has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.