

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

**ARDSLEY ADVISORY PARTNERS**

**262 HARBOR DRIVE, 4<sup>TH</sup> FLOOR**

**STAMFORD, CT 06902**

**WWW.ARDSLEY.COM**

**March 22, 2018**

**This Brochure provides information about the qualifications and business practices of Ardsley Advisory Partners (“Ardsley”). If you have any questions about the contents of this Brochure, please contact Steven Napoli at 203-564-4230 or [steve@ardsley.com](mailto:steve@ardsley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

## **ITEM 2 – MATERIAL CHANGES**

Ardsley Advisory Partners (“Ardsley”) filed its last annual amendment on March 16, 2017. In addition to certain immaterial changes, the brochure was updated at that time to reflect the addition of Ardsley Duckdive Fund, L.P., which is only open to Ardsley employees and personnel and to reflect that Ardsley Healthcare Fund, L.P. was open only to Ardsley employees and personnel.

Ardsley also filed an other-than-annual amendment on April 17, 2017. That other-than-annual amendment was filed to reflect that Ardsley Ridgecrest Partners Fund, L.P. was no longer an Advisory Client of Ardsley, to reflect the departure of Sanford Prater as an employee of Ardsley, and to reflect the addition of a qualified custodian.

Ardsley is filing its annual amendment for fiscal year ending December 2017. In addition to certain immaterial changes, the following material changes have been made since the last version of Ardsley’s Brochure:

The Brochure has been updated to reflect:

- The addition of Ardsley Conway Fund, L.P., which is open only to Ardsley employees and personnel;
- Ardsley Partners Institutional Fund, LP is no longer in operation, and therefore no longer an Advisory Client of Ardsley; and
- Updated RAUM in Item 4 as of December 31, 2017.

Going forward, when Ardsley Advisory Partners amends the Brochure for an annual update (or otherwise), any materials changes will be identified and discussed under Item 2 or as a separate document that will accompany the Brochure. For documentation purposes, Ardsley will provide the date of the last annual update of its Brochure.

### ITEM 3 - TABLE OF CONTENTS

	<u>Page</u>
ITEM 2 – MATERIAL CHANGES .....	I
ITEM 3 - TABLE OF CONTENTS.....	II
ITEM 4 – ADVISORY BUSINESS .....	1
ITEM 5 – FEES AND COMPENSATION .....	3
ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT ..	5
ITEM 7 – TYPES OF CLIENTS .....	6
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	7
ITEM 9 – DISCIPLINARY INFORMATION .....	19
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.	20
ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	21
ITEM 12 – BROKERAGE PRACTICES.....	23
ITEM 13 – REVIEW OF ACCOUNTS.....	25
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	26
ITEM 15 – CUSTODY .....	27
ITEM 16 – INVESTMENT DISCRETION .....	28
ITEM 17 – VOTING CLIENT SECURITIES.....	29
ITEM 18 – FINANCIAL INFORMATION .....	30

## ITEM 4 – ADVISORY BUSINESS

Ardsley Advisory Partners (“Ardsley”) is a New York general partnership that formed and began providing investment advisory services in March 1987.

Ardsley currently offers investment advisory services through seven private investment funds (each one a “Fund” and collectively the “Funds” or the “Advisory Clients”).

- Ardsley Partners Fund II, LP, a Delaware limited partnership (“Flagship Fund”);
- Ardsley Partners Renewable Energy Fund, LP, a Delaware limited partnership (“Renewable Energy Fund”);
- Ardsley World Information Technology Fund, L.P., a Delaware limited partnership (“World Information Technology Fund”);
- Ardsley Healthcare Fund, L.P., a Delaware limited partnership (“Healthcare Fund”);
- Ardsley Partners Advanced Healthcare Fund, L.P., a Delaware limited partnership (“Advanced Healthcare Fund”);<sup>1</sup>
- Ardsley Duckdiver Fund, L.P., a Delaware limited partnership (“Duckdiver Fund”); and
- Ardsley Conway Fund, L.P., a Delaware limited partnership (“Conway Fund”).

It should be noted that World Information Technology Fund, Advanced Healthcare Fund, Healthcare Fund, Duckdiver Fund, and Conway Fund are open solely to investments by Ardsley employees and personnel (collectively known as the “Employee Funds”). Flagship Fund and Renewable Energy Fund are referred to as the “Ardsley Funds.”

The Funds are referred to together in this Brochure as the “Advisory Clients”. “Investors” are investors in or the beneficial owners of interests or shares in the Advisory Clients.

Philip Hempleman and an affiliate of Ardsley, Ardsley Partners I, a New York general partnership (together, the “General Partner”), serve as the General Partner of Flagship Fund and Renewable Energy Fund. Philip Hempleman serves as General Partner of Healthcare Fund, World Information Technology Fund, Duckdiver Fund, and Conway Fund. Ardsley Partners I serves as the General Partner of Advanced Healthcare Fund.

It should be noted that Mr. Hempleman and Ardsley Partners I, in their roles as General Partner, have the sole power and authority to manage the business and legal affairs of the Advisory Clients.

Philip Hempleman is the managing partner of Ardsley Advisory Partners.

Ardsley provides investment advisory services to the Funds. As described in further detail in Item 8 below, these Advisory Clients seek to generate capital appreciation.

The investment objective of the Flagship Fund is to seek above-average capital appreciation (rather than current income) by emphasizing active management of the Funds’ portfolios (including the use of leverage and short selling) and investment in growth stocks. The Flagship Fund invests primarily in equity securities of U.S. corporations traded on national securities exchanges and in the over-the-counter market. In circumstances deemed appropriate by Ardsley, the Flagship Fund also makes investments in bonds or other fixed income securities issued by U.S. corporations, the U.S. Government or foreign governments.

Ardsley pursues this objective for the Renewable Energy Fund by investing principally in equity securities of public and private companies engaged in the development, production and distribution of Renewable

---

<sup>1</sup> It should be noted that this fund is open only to Phil Hempleman, Ardsley employees and certain family members.

Energy/ Clean Tech products and services, and of companies which derive a major portion of their revenue directly or indirectly from business lines which benefit from technological events and advances with respect to such products and services. The Renewable Energy Fund also may invest (by selling short or otherwise) in equity securities of companies whose revenues or stock prices Ardsley believes may be adversely affected by the development, production and distribution of renewable energy products and services.

It should be noted that Advanced Healthcare Fund and Duckdive Fund pursue this objective by investing in domestic and international financial instruments, including equity, interest rate, and, subject to all applicable rules and regulations, commodity instruments, generally with a more aggressive approach than that employed for any other Advisory Client. It should be noted that the Advanced Healthcare Fund and Duckdive Fund does not trade *pari passu* with Ardsley's other accounts; the Advanced Healthcare Fund and Duckdive Fund have different risk limitations and thus may be more concentrated in certain positions than would be appropriate for any other Ardsley client account.

The Funds' structures, investment objectives and strategies are set forth in a confidential private offering memorandum (each a "PPM") provided to each Investor in the relevant Fund.

With respect to the Funds, Ardsley generally does not tailor its advisory services to the individual needs of Investors.

Ardsley may from time to time in the future, enter into side letter agreements or other similar agreements (collectively, "Side Letters") with one or more Investors that provide such Investors with additional and/or different rights or terms than those set forth in the Funds' PPMs. Such Side Letters may, among other things, contain investment restrictions.

As of December 31, 2017, Ardsley manages \$ 895,315,000 of "Regulatory Assets Under Management" (as defined by the SEC), all on a discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

The Ardsley Funds offer private investment fund interests/shares only to certain qualified investors and admission to the Ardsley Funds is not open to the general public. Private investment fund interests/shares are sold only to qualified investors who are “Accredited Investors” under Rule 501 of Regulation D of the Securities Act of 1933, as amended, and “Qualified Eligible Persons” under Regulation 4.7 of the Commodity Exchange Act. Given the Ardsley Funds’ ownership restrictions, Ardsley has determined to limit the sale of private investment fund interests/shares to “Qualified Purchasers”; as such term is defined in Section 2(a) (51) of the Investment Company Act of 1940, as amended.

Please refer to the applicable Fund’s PPMs for a complete description of that Fund’s fee schedule.

Ardsley deducts fees from each Fund’s assets at the beginning of each fiscal quarter. In the case of a partial fiscal quarter; the Management Fee is calculated on a pro rata basis, based on the applicable percentage for the partial quarter and is repaid to the Fund and distributed to the investor. To the extent a capital contribution or withdrawal is made as of any day that is not the first day of a fiscal quarter, the Management Fee is prorated.

Ardsley also charges performance based compensation in the form of an incentive allocation (the “Incentive Allocation”) for all Funds except the Advanced Healthcare Fund. The Incentive Allocation is generally calculated each month and paid as of the last day of each fiscal year. Under the loss carryforward provision, generally an Investor will not be charged an Incentive Allocation until any net loss previously allocated to such Investor has been offset by subsequent net profits.

Ardsley or the General Partner, in their respective sole discretion, may, in effect, waive, reduce or rebate the Management Fee or the Incentive Allocation for certain Investors. It should be noted that Ardsley employees and personnel do not pay an Incentive Allocation in connection with their investments in the Funds. Further, the Management Fee for all internal capital (i.e., an investment from an Ardsley employee and personnel) in the Funds is typically 0.60% (annualized). The Management Fee for all other investors in the Funds is typically 1.50% (annualized).

The Funds’ PPMs set forth the fees and expenses to be paid by Investors. Prospective Investors should carefully review the PPMs and a Fund’s governing documents prior to investing in a Fund.

Ardsley will bear all expenses incurred in connection with the offer and sale of interests in the Flagship Fund, Renewable Energy Fund, and the Healthcare Fund.

Ardsley will also bear all legal and accounting expenses of the Flagship Fund.

The Funds will bear all legal and accounting expenses for World Information Technology Fund, Healthcare Fund, Renewable Energy Fund, Advanced Healthcare Fund, Duckdive Fund, and Conway Fund.

The Funds will bear all administrative expenses for Flagship Fund, Renewable Energy Fund, Healthcare Fund, World Information Technology Fund, Advanced Healthcare Fund, Duckdive Fund, and Conway Fund.

The Funds bear all investment expenses, including interest expenses, brokerage commissions, custodial fees, taxes, expenses related to the purchase and sale of illiquid securities, and any other expenses which the General Partner reasonably determines should not be considered Administrative Expenses of the applicable Fund.

It should also be noted that to the extent a trade error occurs, Fund losses caused by trade errors due to gross negligence, bad faith or willful misconduct on the part of Ardsley or its employees will be reversed with

Ardasley being responsible to make the affected Funds whole. However, pursuant to Ardsley's offering documents, the applicable Funds are required to bear the costs of any other trading errors.

Investors in the Flagship Fund, may generally make withdrawals from their capital account in the applicable Fund as follows: (i) at the end of any fiscal quarter, upon 45 days' prior written notice, an Investor may withdraw up to 25% of its capital account; and (ii) at the end of any fiscal year, upon 30 days' prior written notice, an Investor may withdraw any amount from their capital account.

Investors in the Renewable Energy Fund can exercise 100% liquidity upon 30 days' notice at the end of any quarter. Ardsley or the General Partner may require or permit the withdrawal of an Investor under such other circumstances as they, in their sole discretion, deem appropriate for any of the Funds.

**It is critical that Investors refer to their respective Fund's offering documents for a complete understanding of how fees are calculated and deducted from their assets. The information contained herein is a summary only and is qualified in its entirety by the relevant Fund's offering documents.**

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

As noted in Item 5 above, Ardsley receives performance-based compensation in the form of an Incentive Allocation for all Funds, except for Advanced Healthcare Fund. While each Fund, except for Advanced Healthcare Fund, managed by Ardsley pays performance-based compensation, it should be noted that Ardsley does not charge an Incentive Allocation with respect to members, employees, and affiliates of either Ardsley or the General Partner.

The fact that Ardsley receives performance-based compensation may create a potential conflict of interest in that it may create an incentive to make investments that are riskier or more speculative than in the absence of such a performance-based fee. Investors are provided with clear disclosure as to how performance-based compensation is charged with respect to a particular Fund and the risks associated with such performance-based compensation prior to making an investment.



## **ITEM 7 – TYPES OF CLIENTS**

As described in Item 4, Ardsley offers investment advisory services to pooled investment vehicles operating as private investment funds.

As described in Item 5.A, above, each Investor must meet certain suitability requirements. In addition, the minimum initial investment for the Flagship fund is \$1,000,000, and the minimum additional contribution is \$100,000. The minimum initial investment for the Renewable Energy Funds is \$1,000,000, and the minimum additional contribution is \$250,000.

The minimum initial investment for the Employee Funds and the Advanced Healthcare Fund is at the discretion of the General Partner/Phil Hempleman. As stated in Item 4.A, the Employee Funds solely accept investments from Ardsley employees and personnel and the Advanced Healthcare Fund is open only to Ardsley employees, personnel, and Mr. Hempleman's family members.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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

Ardsley's core area of expertise is long/short equity and global macro investing. Ardsley utilizes long/short global equity dedicated to Renewable Energy/ Clean Tech. in diversified sectors including Technology, Healthcare, Biotechnology, Cap Goods & Industrials, Alternative Energy, Energy and Consumer Related.

The Flagship fund utilizes a global long/short hedge fund, whose style is categorized as Growth At a Reasonable Price (GARP), supplemented by value and special situations. The investment objective of the Flagship Fund is long term wealth creation through a portfolio of selected long and short investments in public securities.

The Renewable Energy Fund's strategy is similar to the strategy of the Flagship Fund in that it is a long/short fundamentally driven fund with a bottom-up approach. However, unlike the multi-sector Flagship Fund, the Renewable Energy Fund focuses solely on opportunities in the Renewable Energy/ Clean Tech sector. For the Renewable Energy Fund, Ardsley prefers to invest in companies that are profitable today, and preferably profitable without subsidies. Generally, at least 75% of the portfolio consists of these companies. The Renewable Energy Fund will be capitalization agnostic, taking advantage of a range of opportunities from large-cap to micro-cap. The Renewable Energy Fund will be very global in nature with many of the best opportunities and companies in the sector located abroad. Ardsley will apply its expertise on a global scale to capture these opportunities.

Ardsley has utilized its investment approach for the past 20+ years with its Flagship Fund, and applies a similar approach for the Renewable Energy Fund. Ardsley utilizes three basic investment styles. For the Renewable Energy Fund, these three investment styles will focus on the Renewable Energy sectors from a global perspective.

- 1) The first style is a core investment style in which the firm utilizes a fundamentally driven bottom up approach to identify specific securities of companies that it believes will be successful and whose prices in the market do not reflect the value of the firm. These companies tend to be long-term investments, typically ranging from a year to several years. The Ardsley research team performs in-depth proprietary fundamental analysis to identify issues and to make recommendations for the portfolio. Ardsley subscribes to a rigorous, bottom-up analysis typically associated more with equity holders than with debt holders. Ardsley carefully examines historic cash flow, model future projections, meet with company management, and consult with industry specialists, competitors, suppliers, and customers of each of our prospective investment targets. Ardsley prepares its own spreadsheets and company specific models for every company that it includes in the portfolio as well as its comparables. Ardsley supplements this research with street research, industry media, industry forums, sector consultants, conference calls, peer idea sharing groups and technical screens, but never relies on external modeling for its decisions. Ardsley also utilizes consultants for analysis on global legislative trends.
- 2) The second style is an opportunistic event-driven style still focusing on the fundamentals of companies but taking advantage of shorter terms events such as earnings announcements, new company announcements, M&A activity, etc. These positions are traditionally held shorter-term, roughly a quarter.
- 3) The third style is a short-term trading style that takes advantage of market inefficiencies. For example, liquidity events, volatility, and technical. Typically these investments are held for a week or less and are primarily equity securities.

In order to optimize returns in down market phases, Ardsley utilizes derivatives, options, and other defensive investment vehicles, as well as employing a highly responsive portfolio management approach

that focuses on adjusting invested exposure through cash levels and short positions, where appropriate. In addition, Ardsley is constantly vigilant to opportunities that arise globally in all types of financial markets as a supplement to equity investments.

Ardsley supplements this research through outside subscriptions provided by service providers such as Moody's, Credit Sight, and S&P and a variety of industry periodicals. Ardsley also receives research provided by the major Wall Street investment firms, but never relies on external modeling for its decisions.

It should be noted that the Advanced Healthcare Fund and Duckdiver Fund, which are not open to outside investors, have different risk limitations and thus may be more concentrated in certain positions than would be appropriate for any other Ardsley client account. Advanced Healthcare Fund and Duckdiver Fund have a flexible mandate to focus on high conviction ideas across multiple asset classes, including securities that may or may not be held by the other Advisory Clients. As noted in Item 4, Advanced Healthcare Fund and Duckdiver Fund do not trade pari passu with Ardsley's other accounts and it may not be appropriate for trades to be allocated on a pro rata basis. As a result of Advanced Healthcare Fund's and Duckdiver Fund's more aggressive investment strategy, the funds could be allocated a larger portion of certain securities or could add or sell securities the same day as the other Advisory Clients in a manner that would not merit allocation among the other Advisory Clients. Pre-trade allocation will be employed to the extent possible, but it should be noted that there may and will be instances where Advanced Healthcare Fund and Duckdiver Fund will get a better price than the other Advisory Clients if they trade on the same day but at a different time than the other Advisory Clients. For example, all applicable Advisory Clients, including Advanced Healthcare Fund and Duckdiver Fund, could be allocated a pre-determined portion of a trade that occurs at market open, but later in the day Advanced Healthcare Fund and Duckdiver Fund may add to this position at a price that could be better or worse than the price obtained by all relevant Advisory Clients at the open.

## **Material Risks**

**Prospective Investors should consider the following factors in determining whether an investment in the Renewable Energy Funds is a suitable investment:**

Risks of Investing in the Renewable Energy Sector. Investments in renewable energy and companies with environmentally-friendly products are subject to political priorities and changing government regulation, which may not be enforced. New renewable energy technologies may be feasible, but not cost effective, as research and development costs for such technologies are high. Potential advantages of renewable energy may be slow in development and recognition. Additionally, interest in achieving a clean environment may diminish, particularly if the cost of non-renewable energy declines.

Risks of Investing in Energy-Related Securities. The Funds are subject to the risk that the earnings, dividends, and securities prices of energy companies will be greatly affected by changes in the prices and supplies of oil and other energy fuels. Prices and supplies of energy may fluctuate significantly over any time period due to many factors, including international political developments; production and distribution policies of the Organization of Petroleum Exporting Countries ("OPEC") and other oil-producing countries; relationships among OPEC members and other oil-producing countries and between these countries and oil-importing nations; energy conservation; the regulatory environment; tax policies; and the economic growth and political stability of the key energy-consuming countries.

Limited Diversification; Concentration of Investments. The Renewable Energy Funds' portfolios are expected to be concentrated in a single sector. Accordingly, the risk of loss to a Fund is greater than if its portfolio were invested in a more diversified manner among various industry sectors. In addition, although the Renewable Energy Funds' investments among a variety of different securities is intended to reduce exposure to adverse events associated with specific issuers, the number of investments will be limited. As a consequence, the Renewable Energy Funds' returns as a whole may be adversely affected by the unfavorable performance of even a single investment.

General Economic and Market Conditions. The success of a Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of a Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices of securities, commodities or other financial instruments and the liquidity of a Fund's investments. Volatility or illiquidity could impair a Fund's profitability or result in losses. A Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets; the larger the positions, the greater the potential for loss. The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

Non-U.S. Investments. A Fund may invest in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the U.S. involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding and other taxes on interest, dividends, capital gains and other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict a Fund's investment opportunities. The legal and regulatory environment also may be different, particularly as to bankruptcy and reorganization. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, a Fund may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It also may be difficult to enforce a Fund's rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to a Fund under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

Currency Exchange Exposure. A Fund may invest a portion of its assets in the securities of non-U.S. issuers and other instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. A Fund, however, values its securities and other assets in U.S. dollars. A Fund may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time when a Fund wishes to use them, or that hedging techniques employed by a Fund will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of a Fund's positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which a Fund makes its investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of a Fund's securities in their local markets and may result in a loss to a Fund.

Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on a Fund's non-U.S. dollar investments.

Emerging Markets. The Funds will invest in markets worldwide, including, without limitation, many developing markets in Asia, Latin America, emerging Europe and Africa. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may be subject to the following risks: less publicly available information; more volatile markets; less liquidity or available credit; political or economic instability; less strict securities market regulation; less favorable tax or legal provisions; price controls and other restrictive governmental actions; a greater likelihood of severe inflation; unstable currency; and war and expropriation of personal property.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally and transactions may need to be made on a non-local exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. The quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported. The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and, therefore, potentially carry greater risk. In addition, a Fund's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities or restrictions on the ability to convert currency or to take currencies out of certain countries. Due to the foregoing risks and complications, the costs associated with investments in emerging market securities generally are higher than for securities of issuers based in developed countries. In addition, economic problems in a single emerging market country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect a Fund's performance.

Leverage and Borrowing Risks. A Fund may leverage its capital because Ardsley believes that the use of leverage may enable a Fund to achieve a higher rate of return. Accordingly, a Fund may pledge its securities in order to borrow additional funds for investment purposes. A Fund also may leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which a Fund may have outstanding at any time may be substantial in relation to its capital. In addition, the amount of leverage used by a Fund for a substantial period of time after commencement of operations of a Fund may be higher than Ardsley generally expects to employ on an ongoing basis. It is anticipated that substantially all of the leverage utilized will be with recourse to the given Fund. While leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Fund would be magnified to the extent the Fund is leveraged. The cumulative effect of the use of leverage is a speculative investment practice that involves significant by a Fund in a market that moves adversely to the given Fund's investments could result in a substantial loss to the Fund which would be greater than if the Fund was not leveraged. In general, the anticipated use of short-term margin borrowings results in certain additional risks to a Fund. For example, should the securities pledged to brokers to secure a Fund's margin accounts decline in value, the Fund could be subject to a "margin call," pursuant to which the Fund must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of a Fund's assets, the Fund might not be able to liquidate assets quickly enough to satisfy its margin requirements. A Fund may enter into repurchase and reverse repurchase agreements. When a Fund enters into a repurchase agreement, it "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction,

a Fund "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Fund involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such case may involve costs to a Fund.

Absence of Regulatory Oversight. While a Fund may be considered similar to an investment company, it is not registered as such under the 1940 Act, in reliance upon an exemption available to privately offered investment companies and, accordingly, the provisions of the 1940 Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) are not applicable. Because securities of a Fund held by brokers generally are not held in the Fund's name, a failure of any such broker is likely to have a greater adverse impact on a Fund than if such securities were registered in the Fund's name.

Limited Liquidity. An investment in a Fund provides limited liquidity since the interests or shares are not freely transferable and Investors may withdraw their capital only at the end of any fiscal year. As part of its investment program, a Fund may acquire assets or securities, including debt securities, through direct investments or private placements. These investments may be illiquid, lack a readily available market and be subject to restrictions on resale ("Illiquid Investments"). Accordingly, a Fund may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid securities. A Fund also may suspend the withdrawal rights of the Investors. An investment in a Fund is suitable only for sophisticated investors.

Business and Regulatory Risks of Hedge Funds. Legal, tax and regulatory changes could occur during the term of a Fund that may adversely affect the Fund. The financial services industry generally, and the activities of hedge funds and their managers, in particular, have been subject to increasing regulation and oversight. This may increase a Fund's and Ardsley's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight can also impose administrative burdens on Ardsley, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert Ardsley's time, attention and resources from portfolio management activities. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on a Fund could be substantial and adverse.

Investment and Trading Risks. All securities investments risk the loss of capital. Ardsley believes that a Fund's investment program and research techniques moderate this risk through a careful selection of common stocks and other securities. No guarantee or representation is made that a Fund's program will be successful. Past performance is not a guarantee of future performance. A Fund's investment program utilizes such investment techniques as margin transactions, short sales, option transactions, repurchase and reverse repurchase agreements and limited diversification, and may utilize futures contracts, which practices can, in certain circumstances, maximize the adverse impact to which a Fund may be subject. In addition, a Fund is subject to the risk that changes in the general level of interest rates may adversely affect a Fund's operating results. A Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities, when Ardsley believes that such securities offer opportunities for capital growth. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of

certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Currency. A portion of a Fund's assets may be invested in debt and equity securities denominated in currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to currencies other than the U.S. dollar. A Fund however, values its securities and other assets in U.S. dollars. To the extent unhedged, the value, of a Fund's assets will fluctuate with U.S. dollar exchange rates as well as with price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the assets of a Fund are invested reduces the effect of increases and magnifies the U.S. dollar equivalent of the effect of decreases in the prices of the securities invested in by Ardsley in their local markets. Conversely, a decrease in the value of the U.S. dollar has the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the non-U.S. dollar securities invested in by Ardsley. Ardsley may also utilize forward currency contracts and options to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Short Selling. A Fund's investment portfolio may include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Hedging Transactions. Ardsley may utilize financial instruments such as forward contracts, currency options and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates and market interest rates. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus, moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for Ardsley to hedge against an exchange rate or interest rate fluctuation at a price sufficient to protect a Fund's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. The success of Ardsley's hedging transactions is subject to Ardsley's ability to correctly predict movements in the direction of currency and interest rates. Therefore, while Ardsley may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency or interest rates may result in a poorer overall performance for a Fund than if Ardsley had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Moreover, for a variety of reasons, Ardsley may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Fund from achieving the intended hedge or expose a Fund to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of Ardsley's portfolio holdings.

Emphasis on Trading in Indices and Financial Instruments. Ardsley may emphasize trading indices and financial instruments. The effect of governmental intervention may be particularly significant at certain times in indices and financial instrument futures and options markets, and such intervention (as well as other factors) may cause all of these markets to move rapidly in the same direction because of, among other things, interest-rate fluctuations.

Under normal market conditions, the Renewable Energy Funds expect to invest primarily in equity securities of U.S. corporations traded on national securities exchanges and in the over-the-counter market. In circumstances deemed appropriate by Ardsley, the Renewable Energy Funds may also invest in other equity securities of U.S. and non-U.S. corporations, as well as bonds or other fixed income securities issued by U.S. and non-U.S. corporations, the U.S. Government or foreign governments. The Renewable Energy Funds intend to trade futures contracts relating to U.S. Government securities and stock indices although it is not limited to such contracts. There is no maximum aggregate amount of funds that may be contributed nor is there a minimum aggregate amount required for a Fund to commence trading commodity interests. Current income is not a primary objective, but it is considered in attempting to maximize the total return on investments. A Fund may also invest in all manner of over-the-counter and listed interest rate, currency, commodity, equity and other derivative products, including, without limitation, swaps, options, caps, collars, floors and forward rate agreements and agreements relating to or securing such transactions. The Renewable Energy Funds may seek exposure to various markets through direct investments, or by investing in other pooled investment vehicles, such as exchange-traded funds.

Special Investments. The risk of Special Investments is specific to the Renewable Energy Funds. To the extent that Ardsley determines, in its sole discretion, that illiquid investments cannot be fairly valued or that such investments should be held until the resolution of a special event or circumstance, such illiquid investments ("Special Investments") will be maintained in separate memorandum accounts (each a "Special Investment Account"). An Investor may not withdraw any part of its interest attributable to a Special Investment Account. Ardsley will not purchase a Special Investment for a Fund if, as a result of such purchase, more than 15% of the value of the capital of the given Fund (determined at the time a position is acquired, with securities or other assets held in Special Investment Accounts being valued at the lower of cost or fair value). Notwithstanding this limitation, Special Investments made by a Renewable Energy Fund may constitute more than 15% of the value an Investor's capital account (including capital invested in Special Investments) due to various factors because the limitation applies on a Fund-wide, rather than an Investor-specific, basis. Appreciation or depreciation in hedge positions that relate to, and are a part of, a Special Investment will not be taken into account in calculating the 15% guideline. However, in determining whether to make any Special Investment, Ardsley will consider whether, and the extent to which, more than 15% of the capital of any Fund is, or as a result of such investment, will be invested in Special Investments. Special Investments and other Illiquid Investments, assets and liabilities for which no such market prices are available generally will be carried on the books of a Fund at fair value (which may be cost) as reasonably determined by Ardsley. There is no guarantee that fair value will represent the value that will be realized by a Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A withdrawing Investor with an interest in a Special Investment will not receive any amount in respect of such interest until the related Special Investment is realized or deemed realized.

**Prospective Investors should also consider the following factors in determining whether an investment in the Flagship Fund or the Renewable Energy Funds is a suitable investment:**

Investments in Distressed Securities. It is anticipated that the majority of a Fund's debt investments will be rated below "investment grade" and/or not rated securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky



investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a Fund's investment in any instrument, and a significant portion of the obligations and securities in which a Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Ardsley will correctly evaluate the value of the assets underlying a Fund's investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from a Fund's investments may not compensate Investors adequately for the risks assumed. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a Fund of the security in respect to which such distribution was made.

In certain transactions, a Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Failure of Futures Commission Merchants. Under the Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that Ardsley engage in futures and options contract trading and the futures commission merchants with whom Ardsley maintain accounts fail to so segregate the assets managed by Ardsley, a Fund will be subject to a risk of loss in the event of the bankruptcy of any of these futures commission merchants. In certain circumstances, a Fund might be able to recover, even in respect of property specifically traceable to Fund assets managed by Ardsley, only a *pro rata* share of all property available for distribution to a bankrupt futures commission merchant's customers.

**Prospective Investors should consider the following factors in determining whether an investment in the Healthcare Fund is a suitable investment:**

Short-Term Market Considerations. The Adviser's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Diversification and Concentration. The Adviser may select investments that are concentrated in a limited number or types of Securities. In addition, the Fund's portfolio may become significantly concentrated in Securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such Securities.

Healthcare Sector. The Adviser intends to focus on investments in the healthcare sector. Companies in these industries are subject to extensive government regulation, which may change in a way adverse to the

industry. The Adviser may invest in the securities of healthcare companies that are engaged in the development of products or technologies or that are conducting clinical trials on products or technologies; failure to obtain and maintain regulatory approval for such products or technologies would have an adverse effect on the value of the underlying securities of the healthcare company. Further, healthcare companies may not be able to obtain or maintain patents relating to their products, methods, processes, services or other technologies. Further, the testing involved in medical products and technologies entails a risk a product liability claims, which may have an adverse effect on the value of the underlying securities of the company.

**Prospective Investors should consider the following factors in determining whether an investment in any Fund is a suitable investment:**

Micro, Small and Medium Capitalization Companies. Investments in securities of micro- and small-capitalization companies involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some micro- and small-capitalization companies, an investment in those companies may be illiquid.

Debt Securities. A Fund may invest in U.S. and non-U.S. private and government debt securities and instruments. It is likely that many of the debt instruments in which a Fund invests may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are dependent on the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by a Fund will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor also may be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates

decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third- party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objective.

Investing in High Yield Securities. A Fund may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, a Fund will invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Purchasing Initial Public Offerings. Ardsley may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies and, thus, for interests. The limited number of shares available for trading in some initial public offerings may make it more difficult for a Fund to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, such as renewable energy, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospectus of achieving them.

Trading in Commodity Interests, Options and Swap Agreements. The prices of commodity contracts and all derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements also may be highly volatile. Price movements of commodities, futures and option contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, a Fund's assets are also subject to the risk of failure of any of the exchanges on which its positions trade or of their clearinghouses or of their counterparties. Ardsley may purchase and sell ("write") options on securities, currencies and commodities on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller ("writer") of a put

option which is covered (*i.e.*, the writer has a short position in the underlying security, currency or commodity) assumes the risk of an increase in the market price of the underlying security, currency or commodity above the sales price (in establishing the short position) of the underlying security, currency or commodity plus the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security, currency or commodity below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, currency or commodity, the loss on the put will be offset, in whole or in part, by any gain on the underlying security, currency or commodity. The writer of a call option which is covered (*i.e.*, the writer holds the underlying security, currency or commodity) assumes the risk of a decline in the market price of the underlying security, currency or commodity below the value of the underlying security, currency or commodity less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security, currency or commodity above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, currency or commodity, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security, currency or commodity. Options may be cash settled, settled by physical delivery or settled by entering into a closing purchase transaction. In entering into a closing purchase transaction, a Fund may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the financial soundness and creditworthiness of the swap counterparty. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Ardsley from promptly liquidating unfavorable positions and subject a Fund to substantial losses. In addition, Ardsley may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Futures' trading is also highly leveraged.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by a Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which Ardsley would otherwise recommend, to the possible detriment of a Fund. Neither the CFTC nor banking authorities regulate forward currency trading through banks. In respect of such trading, a Fund is subject to the risk of bank failure or the inability or refusal by a bank to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to a Fund.

Exchange-Traded Funds. Shares of exchange-traded funds ("ETFs") and other similar instruments may be purchased or sold short by a Fund. An ETF is an investment company that is registered under the 1940 Act that holds a portfolio of common stocks designed to track the performance of a particular index. ETFs sell and redeem their shares at net asset value in large blocks (typically 50,000 of its shares) called "creation units." Shares representing fractional interests in these creation units are listed for trading on national securities exchanges and can be purchased and sold in the secondary market in lots of any size at any time during the trading day. Instruments a Fund may purchase that are similar to ETFs represent beneficial ownership interests in specific "baskets" of stocks of companies within a particular industry sector or group. These securities also may be listed on national securities exchanges and purchased and sold in the secondary market, but unlike ETFs are not registered as investment companies under the 1940 Act. Investments in ETFs and other instruments involve certain inherent risks generally associated with investments in a broadly-based portfolio of stocks including risks that the general level of stock prices may decline, thereby adversely affecting the value of each unit of the ETF or other instrument. In addition, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or number of stocks held. Because ETFs and pools that issue similar instruments bear various fees and expenses, a Fund's investment in these instruments will involve certain indirect costs, as well as transaction costs, such as brokerage commissions. Ardsley may consider the anticipated expenses associated with an investment in determining whether to invest in an ETF or other instrument that otherwise might be suitable for investment by a Fund.

PIPE Transactions. Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "PIPE" transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Fund acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Funds' ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration.

Restricted Securities. Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (e.g., under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by the Fund. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

Unlisted Securities. Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

**Investors and prospective Investors are provided with investment offering documents that contain a detailed description of the risks related to an investment in a Fund and are advised to carefully review all risk factors set forth in the relevant offering documents.**

## **ITEM 9 – DISCIPLINARY INFORMATION**

As set forth in Item 11 of the Adviser's ADV Part 1, on or about February 5, 2013, the Adviser was ordered, among other things, to pay a civil monetary fine in the amount of \$253,335 stemming from a finding that the Adviser had violated Rule 105 of Regulation M of the Securities and Exchange Act of 1934. The matter reached a final resolution, and payment of such fine was paid by the Adviser on February 7, 2013.

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

As described in Item 4, Philip Hempleman and an affiliate of Ardsley, Ardsley Partners I, a New York general partnership (together, the “General Partner”), serve as the General Partner of Flagship Fund and Renewable Energy Fund. In addition, Philip Hempleman serves as General Partner of World Information Technology Fund, Healthcare Fund, Duckdive Fund, and Conway Fund. Further, Ardsley Partners I serves as General Partner of Advanced Healthcare Fund. In their roles as General Partner, Mr. Hempleman and Ardsley Partners I have absolute legal authority for such entities. The General Partner invests directly in the Funds, and employees of Ardsley and the General Partner also invest directly in the Funds. It should be noted that investments made by such parties generally are not subject to the Incentive Allocation noted in Item 5, above.

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

Ardsley has adopted a Code of Ethics (the “Code”) designed to meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940 (“Advisers Act”). The Code sets forth a standard of business conduct that takes into account Ardsley’s status as a fiduciary and requires Access Persons to place the interests of Advisory Clients and Investors above their own interests. Each employee of Ardsley is deemed to be an Access Person.

The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of Ardsley’s Chief Compliance Officer. All Access Persons are provided with a copy of the Code and are required to acknowledge receipt of the Code on at least an annual basis.

As required by Rule 204A-1 of the Advisers Act, and as further discussed below, the Code also sets forth certain reporting and pre-clearance requirements with respect to personal trading by Access Persons. Access Persons must pre-clear certain transactions in securities, specifically those involving initial public offerings, limited offerings or equity transactions or options. Access Persons must also provide the Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an Access Person. In addition, Access Persons must provide annual holdings reports and quarterly transaction reports in accordance with Rule 204A-1.

In summary, the Code is designed to (i) prevent improper personal trading by Ardsley’s Access Persons; (ii) prevent improper use of material, non-public information about securities recommendations made by Ardsley or securities holdings of Ardsley’s Advisory Clients; (iii) identify conflicts of interest; and (iv) provide a means to resolve any actual or potential conflict in favor of Advisory Clients.

Further, Ardsley’s Code of Ethics ensures the protection of nonpublic information about the activities of the Funds. Investors or prospective Investors may obtain a copy of Ardsley’s Code of Ethics by contacting the Chief Compliance Officer, Steven Napoli at 203-564-4230 or [steve@ardsley.com](mailto:steve@ardsley.com).

As described above, Ardsley serves as the investment manager of the Funds and its affiliate serves as the General Partner of the Funds. Ardsley and the General Partner recommend interests in the Funds to prospective Investors. As noted in Item 10 above, Ardsley does not charge an Incentive Allocation to Investors that are members, employees or affiliates of Ardsley or the General Partner.

The fact that Ardsley, the General Partner and Access Persons may each have financial ownership interests in the Funds creates a potential conflict in that it could cause Ardsley to make different investment decisions than if such parties did not have such financial ownership interests.

Ardsley addresses these potential conflicts through regular monitoring of the Funds’ portfolios for consistency with the Funds’ objectives, strategies, and target capacity. Further, Ardsley carefully considers the risks involved in any investments and provides extensive disclosure to Investors regarding the potential risks that come with an investment in the Funds. Ardsley’s Code of Ethics requires Access Persons to place the interests of Advisory Clients and Investors over their own or those of Ardsley, and all Access Persons are required to acknowledge their receipt and understanding of the Code. Also, as noted in this Item, Access Persons are subject to certain personal securities transaction including: pre-clearance for certain securities transactions, and initial, quarterly and annual reporting requirements to ensure all Access Persons place the interests of the Advisory Clients above their own.

Ardsley may also employ, at its discretion, the services of consulting firms or experts (“Consultants”) to aid in brokerage securities transactions and supplement their research processes with expert advice on



technical or other specialized matters relevant to the investment decision making process. Consultants are provided on an annual basis, with the Code of Ethics, that they are required to attest to.

As of March 14, 2016, the Adviser and its related persons and entities generally are not permitted to purchase or sell any securities that they know will be, or currently are being, purchased or sold for the account of an Advisory Client. Employees of Ardsley are generally restricted from trading in reportable securities, such as common and preferred equity securities. In addition, the Adviser's Code of Ethics requires employees to obtain prior written approval before selling any legacy positions in such securities in his/her personal account. Such employee transactions will be reviewed in the best interests of the Advisory Clients and will be denied by the Chief Compliance Officer if there is risk of potential adverse consequences to the Advisory Clients.

Ardsley also maintains a "Restricted Securities" list, which will include securities that are under consideration for Advisory Clients, as well as certain securities owned by Advisory Clients. Generally, any security appearing on the Restricted Securities list will not be approved for personal trading.

The Chief Compliance Officer and/or his designee reviews each Access Person's personal transaction reports to make sure each Access Person is conducting his or her personal securities transactions in a manner that is consistent with the Code.

## ITEM 12 – BROKERAGE PRACTICES

Ardsley recognizes its duty to obtain “best execution” for its Advisory Clients. In selecting the broker-dealers to execute securities transactions, Ardsley will select brokers on the basis of best execution and in consideration of factors such as the broker’s trading expertise, reputation, facilities, willingness to commit capital and access to a particular trading market. Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to the Funds by brokers in the foregoing circumstances are higher than those charged by other brokers who may not offer such services.

*Scope of Products and Services.* Research-related services rendered to Ardsley by brokers selected to execute transactions generally benefit all Advisory Client accounts. Certain brokers that supply research services at times suggest a level of brokerage commissions they would expect to receive in return for supplying the services. Ardsley monitors the level of commissions allocated to such brokers relative to the value of the research services it receives.

Ardsley also, to the extent permitted under its investment advisory agreements with Advisory Clients (including the applicable organization documents of investment funds), directs client brokerage transactions to brokers that have entered into arrangements with Ardsley pursuant to which the brokers, in consideration of the commissions they receive on transactions for accounts of Ardsley's clients, provide or agree to pay (out of commissions received from executing transactions for clients of the Ardsley) all or a portion of the expenses incurred in obtaining certain research and non-research related products and services used by Ardsley in servicing client accounts. Ardsley also directs certain brokers to pay (out of such commissions) third-party research providers and third party vendors of non-research products and services.

The brokerage and research-related products and services provided by brokers and third parties to Ardsley (which may be, and at times are, paid for with client brokerage commissions) can include economic, political and social trend analyses; reports on the equity and credit markets; research-related periodicals; analyses of industries and individual companies; access to consultants, including those with expertise relating to domestic and global economics, research for model building and maintenance, specific companies, technologies or industries; certain telecommunications hardware, software and maintenance (including data communications and direct lines, including remote lines, to brokers and market data vendors); quotation systems; and other brokerage and research-related products and services that assist Ardsley in rendering investment management services to its clients.

*Regulatory Categorization of Products and Services.* Ardsley believes that the arrangements described herein assist it in managing and servicing client accounts and are therefore beneficial to its Advisory Clients. Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" for the use of brokerage commissions generated on client transactions to obtain services. Under Section 28(e), an investment adviser will not be deemed to have acted unlawfully or to have breached its fiduciary duty by causing a client to pay higher commissions to a broker because of "brokerage and research services" provided by the broker.

The use by Ardsley of brokerage commissions generated on transactions for the Ardsley Funds to obtain services fall within the scope of the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934 to the extent commissions are used to pay for research-related or brokerage-related products and services.

To the extent that laws and regulations applicable to certain client accounts, including the Investment Company Act of 1940 and the Employment Retirement Income Security Act of 1974 ("ERISA"), prohibit the use of client brokerage commissions in connection with arrangements that do not fall within the safe harbor of Section 28(e), commissions generated by those accounts are excluded from any arrangements to

obtain non-research related products and services. As to the Employee Funds, Ardsley directs transactions to a particular broker to pay for products or services that are outside of the Safe Harbor of Section 28(e).

The Ardsley Funds nevertheless derive benefits from these products and services Ardsley obtains, notwithstanding the fact that brokerage commissions of the Employee Funds are used to pay for those products and services.

The products and services provided by brokers and third party vendors to Ardsley *outside* of the Section 28(e) safe harbor (and which may be paid for with client brokerage commissions) include computer and technology infrastructure; computer hardware as well as support and maintenance for the computer hardware and the dedicated physical infrastructure to support all of the above (such as 24/7 air conditioning); software and support and maintenance, including certain accounting, portfolio management and compliance software; and other products and services that assist Ardsley in rendering investment management services to its clients.

Where Ardsley purchases or sells particular securities for two or more Advisory Clients (or for Advisory Clients and one or more accounts affiliated with Ardsley or its controlling person), Ardsley will generally seek to aggregate orders for execution as a single transaction. It is noted that multiple orders for a single security broker combination will generally be aggregated into a single transaction at the average price and allocated at the end of the day. Each Advisory Client participating in an aggregate transaction will participate at the average share price obtained in transactions for Ardsley's Advisory Clients in the security on that business day. Securities that are bought and sold in aggregated transactions are normally allocated pro-rata to the participating Advisory Client accounts in proportion to the size of the orders placed for each account to the extent practicable.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Client accounts are under continuous review and performance is analyzed on a daily basis.

Ardsley's Chief Compliance Officer, the Portfolio Managers and the General Partners (who may also rely on outside counsel) are responsible for ensuring the accuracy of trade confirmations and related documents. Trades are maintained via an internal accounting system and/or the Fund administrator. Daily position reports are created and distributed to the Funds' Portfolio Managers, Philip Hempleman, Spencer Hempleman, Ryman Gwon, Benjamin Block and Kirk Balzer. The Portfolio Managers review the reports for internal portfolio management and risk management purposes.

Further, the Chief Compliance Officer, the Portfolio Managers and the General Partners periodically review the firm's trading and current practices to ensure consistency with applicable law and regulations.

On a monthly basis Investors receive notice of their capital balance and transparency indicating performance. On a quarterly basis, Investors receive unaudited financial and capital statements. Investors also periodically receive an investor letter from the portfolio manager. On an annual basis Investors will receive audited financial and capital statements. Investors in onshore funds will also receive Form K-1. Other periodic reports may be provided to certain investors in a particular Fund, including more detailed portfolio transparency and attribution analysis.

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

Ardsley does not receive economic benefits from non-clients for providing investment advice and other advisory services.

All compensation will be fully disclosed to each client and investor, consistent with applicable law. All referral activities will be conducted in accordance with SEC Rule 206(4)-3 under the Advisers Act as well as relevant SEC guidance. In general, third party solicitors are entitled to receive a portion of the fees otherwise payable to Ardsley.

## **ITEM 15 – CUSTODY**

Ardsley and the General Partner are deemed to have custody of Fund assets by virtue of their respective status as investment manager and general partner. Ardsley and the General Partner maintain the assets of Advisory Clients in accounts with “qualified custodians” pursuant to Rule 206(4)-2 under the Advisers Act and will notify Investors in writing of the qualified custodian’s name, address and the manner in which the assets are maintained promptly when the account is opened and following any changes to this information. The qualified custodians presently utilized by Ardsley as prime broker and custodian for the Funds is Goldman, Sachs & Co. (“Goldman Sachs”), 200 West Street, 3<sup>rd</sup> Floor; New York, New York 10282, Citigroup Global Markets Inc. (“Citigroup”), 390 Greenwich Street; New York, New York 10013, and Cowen and Company, LLC (“Cowen”), 599 Lexington Avenue, 20<sup>th</sup> Floor; New York, New York 10022. Additionally, Northern Trust, 50 South La Salle Street; Chicago, IL 60603, also serves as a qualified custodian, but not a prime broker, for all of the Funds.

Ardsley reasonably believes that all Investors in the Flagship Fund and Renewable Energy Fund will be provided with audited financial statements, prepared by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles, within 120 days of each Fund’s fiscal year. Investors should carefully review the audited financial statements upon receipt.

Ardsley employees and personnel are the sole Investors in the Advanced Healthcare Fund, World Information Technology Fund, Healthcare Fund, Duckdive Fund, and Conway Fund. As such, Ardsley will use an independent public accountant to verify the funds and securities for Investors in these funds by an annual surprise examination pursuant to Rule 206(4)-2 under the Advisers Act.

## **ITEM 16 – INVESTMENT DISCRETION**

Ardsley has discretionary authority to manage securities accounts on behalf of its Advisory Clients. Ardsley is authorized to make purchase and sale decisions for Advisory Clients. As explained in Item 4.C above, individual Investors in the Funds do not have the ability to impose limitations on Ardsley's discretionary authority. Prospective Investors in the Funds are provided with an offering memorandum prior to their investment and are encouraged to carefully review the offering memorandum, along with all supplements and other relevant offering documents, and to be sure that the proposed investment is consistent with their investment goals and tolerance for risk. Prospective Investors to the Funds must execute a subscription agreement, in which they make various representations, including representations regarding their suitability to invest in a high-risk investment pool. Prospective Investors in the onshore funds must also execute a limited partnership agreement. The subscription agreement and limited partnership agreement each constitute a legal, valid and binding obligation of the Investor, enforceable in accordance with its terms.

## ITEM 17 – VOTING CLIENT SECURITIES

Ardsley understands and appreciates the importance of proxy voting. Rule 206(4)-6 under the Advisers Act (the "Proxy Voting Rule") places specific requirements on registered investment advisers with proxy voting authority. Because Ardsley has discretionary authority over the securities held by its clients, Ardsley is viewed as having proxy voting authority. Accordingly, Ardsley is subject to the Proxy Voting Rule. To meet its obligations under this rule, Ardsley has retained a third party proxy voting agent, Broadridge, to coordinate and vote all proxies on behalf of the Advisory Clients. The Chief Compliance Officer or his designee will monitor Broadridge to ensure that all proxies are being properly voted and appropriate records are being retained. Ardsley may revoke from Broadridge authority to vote any particular proxy and vote the proxy itself.

### **Policies and Procedures for Situations in Which Ardsley Directly Votes Proxies**

In the event that Ardsley decides to directly exercise discretion to vote a proxy, it will vote in the best interests of its Advisory Clients and in accordance with its policies and procedures for voting proxies. In such situations, the general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives.

Ardsley may take into account all relevant factors, as determined by the Adviser in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, clients may not direct the Ardsley's vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Advisory Clients on the one hand and the Adviser or its affiliates on the other hand. If the Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Adviser will vote in accordance with its proxy voting policies and procedures.

If you have any questions about Ardsley's proxy policy, its proxy record-keeping procedures or if you would like any detailed information about how proxies are actually voted, please contact Steven Napoli at 203-564-4230 or [steve@ardsley.com](mailto:steve@ardsley.com).



## **ITEM 18 – FINANCIAL INFORMATION**

Not applicable to the Adviser.