

**Item 1 – Cover Page**

**Form ADV Part 2A: FIRM BROCHURE**

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This Brochure provides information about the qualifications and business practices of 1060 Capital, LLC (“1060 Capital”). If you have any questions about the contents of this brochure, please contact us at (312) 361-3360 or [ah@1060llc.com](mailto:ah@1060llc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

1060 Capital is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information you can use to determine to hire or retain an adviser.

Additional information about 1060 Capital also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Since the annual filing of 1060 Capital, LLC’s (“1060 Capital”) last Brochure filed on March 3, 2016, the Firm’s third party administrator changed its name change from ALPS Fund Services to ALPS Alternative Investment Services.

Pursuant to SEC rules, 1060 Capital will provide a summary of material changes to its brochure within 120 days of the close of its fiscal year. 1060 Capital may provide further disclosures about material changes, as deemed necessary. Additionally, 1060 Capital will provide to clients a new brochure as necessary, without charge.

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## **Item 4 – Advisory Business**

**A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).**

### **Firm Description**

1060 Capital, LLC (“1060 Capital” or the “Investment Manager”) is an investment management firm with a focus on investing in U.S. consumer and industrial equities. Formed in 2012, 1060 Capital employs a long/short strategy with the primary objective of maximizing absolute returns and preserving capital through a disciplined, fundamental driven process.

1060 Capital, an Illinois limited liability corporation, serves as the Investment Manager for and provides discretionary investment advisory services to 1060 Capital Opportunity Fund, LP, an onshore master fund, and 1060 Capital Opportunity Fund, Ltd., an offshore feeder fund (together the “Fund”). All trading occurs at the master fund level and thus throughout this Brochure references to the Fund include both the master and feeder funds.

The Fund offers two classes of its limited partnership interest (“Class A” and Class B”), which both have different fee schedules and liquidity terms as described more fully below in Items 5 and 6. 1060 Capital also provides investment management services to a separately managed account and may in the future provide investment management services to additional separately managed accounts (the “Managed Account” and together with the Fund, “Clients”).

The Fund’s general partner, 1060 Capital Management, LLC (the “General Partner”), has overall responsibility for managing the business and affairs of the Fund in its capacity as General Partner of the Fund. The General Partner, however, has delegated day-to-day investment authority to the Investment Manager pursuant to an investment management agreement among the Fund, the General Partner and the Investment Manager. The General Partner is registered under the Investment Advisers Act of 1940 pursuant to 1060 Capital’s registration in accordance with SEC guidance.

### **Principal Owners/Ownership Structure**

1060 Capital is owned by principal Brian Gustavson.

**B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

1060 provides discretionary investment management services to the Fund and Managed Account. Pursuant to its investment management agreement with the Funds (the “IMA”), 1060 Capital is responsible for each Fund and Managed Account’s day-to-day management and has ultimate authority over all investment decisions, asset acquisitions and dispositions, distributions and investment management affairs generally. This Brochure refers to trading activities on behalf of the Funds and Managed Account; as previously mentioned, with regard to the Fund, all of the trading on behalf of the feeder fund occurs at the master fund level. Trading activities on behalf of the Managed Account is generally made on a *pari passu* basis, except as otherwise agreed upon in the IMAs. 1060 has full discretionary authority on behalf of the Fund and Managed Account.

The Firm seeks to primarily capitalize on long and short positions in equity securities in the U.S. consumer and industrial sectors.

**C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

The advisory services provided by 1060 Capital to the Fund and Managed Account are tailored to the investment objectives, investment strategy, and investment restrictions, if any, as set forth in each vehicle’s governing documents. 1060 Capital provides investment advice directly to the Fund and not to investors in the Fund individually; investment advice for the Managed Account is provided directly to the Managed Account. 1060 Capital does not require, nor does it seek, approval from the Fund or Managed Account or the investors in the Fund or Managed Account with respect to its trading.

Accordingly, 1060 Capital does not tailor its advisory services to the individual needs of investors in the Fund and Managed Account, provided, however, that in order to comply with certain legal and regulatory requirements, there may be instances when a limited partner in a Fund may not participate in an investment by the Fund (such as with respect to “new issues”) and appropriate measures will be taken by the respective Fund and/or Managed Account to comply with such laws and regulations. The Fund or 1060 Capital, however, may, from time to time, enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund’s governing documents. Such rights include notification and disclosure rights, certain fee arrangements, transfer rights, reporting obligations and certain withdrawal or redemption rights, among others. The Managed Account may also enter into similar agreements with 1060 Capital.

**D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

1060 Capital does not participate in wrap fee programs.

**E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date “as of” which you calculated the amounts.**

As of December 31, 2015, 1060 Capital manages \$164,712,114, all of it on a discretionary basis.

#### **Item 5 – Fees and Compensation**

**A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.**

In consideration for the investment management services provided to the Fund, the Fund deducts a quarterly management fee from the capital account of each limited partner in the Fund (the “Management Fee”) in an amount equal to a percentage of the net asset value of such account. The Management Fee for capital accounts relating to Class A interest is 2% annually; the Management Fee for capital accounts relating to Class B interests is 1.5% annually. The Management Fees are adjusted *pro rata* for any capital contributions or withdrawals during the relevant calendar quarter. Management Fees are payable without regard to the overall success or income earned by the Fund.

1060 Capital, in its sole discretion, may elect to reduce or waive the Management Fee with respect to any limited partner and/or shareholder, including principals and employees of the Investment Manager or its affiliates. In such event, the amount of the Management Fee paid by the Fund to the Investment Manager will be adjusted accordingly. The principals or other employees of 1060 Capital may receive a portion of the Management Fees, Incentive Allocation, or other compensation received by 1060 Capital or the General Partner.

Managed Account clients pay management and/or performance fees to 1060 Capital as negotiated and reflected in the IMA for the Managed Account.

**B. Describe whether you deduct fees from clients’ assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.**

The Fund deducts Management Fees from the capital account of each investor on a quarterly basis in arrears. There are no Management Fees for the Managed Account.

**C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

The Fund's organizational costs and expenses, together with offering costs and expenses incurred in connection with the offer and sale of interests issued at the initial closing, are not expected to exceed \$50,000. The Investment Manager initially bore these expenses and is being reimbursed by the Fund for these costs in equal monthly installments over a thirty-six (36) month period, beginning as of the month in which the initial closing occurred. If the Fund ceases operations prior to the end of this thirty-six (36) month period, it will have no further reimbursement obligations to the Investment Manager. Moreover, if a limited partner redeems all of its capital account(s) prior to the end of this thirty-six (36) month period, the limited partner will have no further reimbursement obligation to the Investment Manager. The Fund does not expect that the ongoing offering costs will be significant.

Subject to the limitations described below, the Fund bears such costs and expenses as reasonably necessary, appropriate, advisable, incidental or convenient to effect the Fund's formation, carry on its business and realize its objective, including without limitation: (i) costs and expenses incurred in connection with the organization of the Fund and the offer and sale of interests prior to the initial closing; (ii) the costs and expenses incurred in connection with the offer and sale of interests after the initial closing; (iii) Management Fees; (iv) direct operating costs and expenses, including administrative, legal, accounting, auditing, record-keeping, compliance and consulting costs and expenses (including costs and expenses associated with obtaining systems and other information designed to facilitate Fund accounting or record-keeping, including related hardware and software); fees, costs and expenses of third-party service providers that provide such services (including fees, costs and expenses of attorneys retained by the General Partner or the Investment Manager to represent the General Partner or the Investment Manager in connection with the business and affairs of the Fund, to the extent such fees, costs and expenses relate to advice provided to the General Partner or the Investment Manager by such attorneys with respect to such business and affairs); insurance costs and expenses (including premiums for liability insurance covering the Fund and other persons); bank service fees; costs and expenses associated with preparing investor communications; and printing and mailing costs; (v) fees and taxes imposed by any federal, state, local or foreign government, governmental agency or regulatory body or self-regulatory organization, including licensing, filing, registration and exemption fees and withholding, transfer and franchise taxes; (vi) the Fund's indemnification obligations under the limited partnership agreement, the IMA, the administration agreement and other agreements to which the Fund may be a party; (vii) costs and expenses incurred in connection with the direct investment and reinvestment of the Fund's assets, including brokerage commissions, dealer mark-ups, mark-downs and spreads, and related clearing and settlement charges; (viii) research costs and expenses, including Bloomberg and FACTSET, which may be paid as part of a "soft dollar" arrangement; (ix) borrowing charges and other costs and expenses associated with short sales; (x) interest expense and loan commitment fees relating to the Fund's borrowings (including margin debt); and (xi) any extraordinary expenses.

Each of the General Partner and the Investment Manager is responsible for all salaries, bonuses and employee benefit expenses of their principals and employees who are involved in the management and conduct of the business and affairs of the Fund (as well as related overhead, including office space

and equipment, utilities, telephone and telecopier costs and other similar items.).

For a description of brokerage costs incurred, please see Item 12.

**D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

Management Fees applicable to the Fund and Managed Account are paid quarterly in arrears as described in the IMA and/or the governing documents of the Fund or Managed Account. A Class B limited partner choosing to withdraw their interest prior to the lock up period, as defined in the Fund offering document, will be subject to a 2% withdrawal fee.

**E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.**

Not applicable (with respect to all of Item 5.E and its sub-parts).

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

**If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.**

As of the end of each calendar year and as of any date on which a limited partner receives a withdrawal or distribution from a capital account (a “Calculation Date”), the Fund ordinarily will debit from each capital account, and credit to the capital account of the General Partner, a special allocation of profits (the “Incentive Allocation”) in an amount equal to twenty percent (20%) of the net new profit in each capital account as of the Calculation Date.

The Incentive Allocations are subject to a “high water mark.” This means that if there is a temporary decline in an investor’s capital account due to net losses, the General Partner will not be allocated the Incentive Allocation for such investor until these losses are recovered.

1060 Capital or the General Partner may agree to a different Incentive Allocation or may elect, in its



sole and absolute discretion, to waive some or all of its Incentive Allocation with respect to certain limited partners/shareholders in the Fund, including without limitation, limited partners/shareholders that are employees or affiliates of 1060 Capital. Once a Fund's fiscal year has ended, any performance-based compensation earned during that year is not subject to reversal. The Incentive Allocation to the General Partner will be based, in part, on unrealized investment gains of the Fund that may never be realized in the event of adverse changes in the value of such investments, and thus, the allocation may be greater than if it were solely based in realized gains.

Incentive Allocations for the Managed Account are calculated by the Managed Account's third party administrator on monthly basis and are deducted monthly by the Managed Account's qualified custodian.

The performance-based compensation received by 1060 Capital and the General Partner creates a conflict between 1060 Capital's interest in earning a profit in the short term with the long-term interests of the Fund and their investors. An incentive-based allocation arrangement may create an incentive for riskier or more speculative investments by 1060 Capital than might be the case in the absence of such performance-based allocation arrangement because these investments may allow 1060 Capital to collect larger incentive-based compensation. Fund investors are provided with clear disclosure as to how performance-based compensation is charged and the risks associated with such performance-based compensation prior to making an investment.

## **Item 7 – Types of Clients**

**Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

1060 Capital provides discretionary investment advice to its clients, the Fund and to a Managed Account. The Firm limits its investors to persons who are "accredited investors" as defined in the Securities Act of 1933. Fund investors are also "qualified purchasers" as defined in the Investment Advisers Act of 1940. Minimum contributions for investment in the Fund is \$250,000, but commitments in excess or less than the required amounts are also accepted at the sole discretion of the Fund's General Partner.

Investors in the Fund are primarily U.S. investors, which may include, among others, high net worth individuals, other investment advisers, estate planning trusts, family limited partnerships, family limited liability companies and corporations. In addition, principals, employees, and other persons associated with 1060 Capital may make capital contributions to the Fund.

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

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.**

1060 Capital seeks to achieve the Fund's investment objective of maximizing returns and preserving capital by making sector specific long and short equity investments. 1060 Capital uses a fundamental, bottom up investment process to identify unique opportunities with a defined time horizon and catalyst with a focus in the U.S. consumer and industrial sectors where investor coverage and interest have been historically low. 1060 Capital uses an array of tools to evaluate opportunities and trends, including, but not limited to: channel checks, fundamental modeling, internet trend analysis, sell side research and management interviews. 1060 Capital believes its research based investment process will allow it to identify catalysts which might cause other investors to reassess a company's valuation.

1060 Capital believes there are significant opportunities to produce attractive total returns by implementing the strategy of the Fund through ideas that have multiple catalysts or events, ultimately increasing the odds of a successful investment idea. 1060 Capital manages portfolio risks through self-imposed targets on position concentration, market exposure or directionality (beta) exposure, and portfolio drawdowns.

All investments in securities and other financial instruments involves substantial risk of volatility (potentially resulting in rapid declines in market prices and significant losses) arising from any number of factors that are beyond the control of the General Partner and the Investment Manager, such as: changing market sentiment; changes in industrial conditions, competition and technology; changes in inflation, exchange or interest rates; changing domestic or international economic or political conditions or events; changes in tax laws and governmental regulation; and changes in trade, fiscal, monetary or exchange control programs or policies of governments or their agencies (including their central banks). Changes such as these, as well as innumerable other factors, are often unpredictable and unforeseeable, rendering it difficult or impossible to predict or foresee future market movements. Unexpected volatility or illiquidity in the markets in which the Fund holds positions could impair its ability to achieve its objectives and cause it to incur losses.

**B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in the Fund entails substantial risks, including, but not limited to, the possibility of a complete loss of the amount invested. Current and prospective 1060 Capital investors should carefully consider the following factors, among others, in determining whether an investment in a Fund is

suitable for them. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. There are many market-related and other factors, some of which cannot be anticipated, that could result in an investor losing a major portion or all of its investment in a Fund, or prevent a Fund from generating profits. Any of these factors could make a Fund unable to execute its investment strategy. No investor should invest in any fund unless the investor is fully able, financially and otherwise, to bear such a loss, and unless the investor has the background and experience to understand thoroughly the risks of its investment.

For a more detailed review of the strategies and risks of an investment in the Fund, please see the private placement memoranda. All investors should be aware of certain risk factors, which include, but are not limited to, the following:

- *Use of Leverage.* The Fund may borrow cash to purchase financial instruments (*e.g.*, traditional margin purchases). Additionally, the Fund may purchase inherently leveraged instruments such as options, forward contracts and swaps. The level of interest rates generally, and the rates at which the Investment Manager can borrow for the Fund, in particular, are likely to have a substantial effect on the Fund's performance to the extent it borrows. If the interest expense on borrowings – which ordinarily will fluctuate from time to time depending on market conditions – were to exceed the net return on the portfolio securities purchased with the borrowed funds, the use of leverage would result in a lower rate of return than if leverage were not used.
- *Non-Diversification and Concentration Risk.* The Fund may invest in a limited number of issuers, without regard to the percentage of the Fund's assets invested with any single issuer or within any single industry. The Investment Manager is under no obligation to rebalance the Fund's positions and the Fund may become increasingly concentrated in its most successful positions. Further, the Investment Manager may determine to increase the Fund's exposure to successful positions. Non-diversification among issuers involves an increased risk of loss to the Fund if the market value of a security should decline.
- *Substantial Fees and Expenses.* The Fund is subject to fees, transaction costs and other costs and other expenses, including the Management Fee and Incentive Allocation, regardless of whether it realizes any profits. Accordingly, the Fund must earn trading profits to avoid depletion of its assets due to such costs and expenses.
- *Incentive Allocations.* The General Partner's Incentive Allocations depend on continuing increases in the NAV of the capital accounts. This creates a potential incentive for the principals of the General Partner to cause the Investment Manager to trade the Fund's assets in a manner that is riskier or more speculative than would otherwise be the case.

Although the High Water Mark for a capital account will carry forward from year to year

until exceeded, the General Partner will not be required to “repay” any Incentive Allocation allocated to it in the event such Account subsequently experiences losses.

The Incentive Allocations made to the General Partner will be determined on the basis of the value of the assets in the capital accounts, including value attributable to unrealized appreciation. Thus, Incentive Allocations may be made to the General Partner based on positions that were profitable at the time such allocations were made but unprofitable when eventually liquidated.

- *Absence of Registration.* The Fund is offering interests to investors pursuant to the exemption from registration under the Securities Act provided by Regulation D and will not register its securities or investment operations under the Securities Act. In addition, the Fund will rely on the “exclusion” from the definition of “investment company” for certain “private” investment companies provided by Section 3(c)(7) of the Investment Company Act of 1940. As a result, limited partners will not be afforded the protections that registration under the Securities Act and the Investment Company Act might provide.

There is no market for interests and none is expected ever to develop. Consequently, the limited partners may not be able to liquidate their investment, or securities distributed to them in kind, in the event of an emergency or for any other reason, interests may not be pledged as collateral.

**C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

- *Long/Short Investing.* Taking long and short positions in related securities presents unique investment risks. These risks include the risk that the Investment Manager may fail to notice a fundamental change in the relationship between the two securities or groups of securities and cause the Fund to enter positions when the prices are not likely to move in tandem. This can happen when, for example, there is a fundamental change in one of the securities as a result of which the price level changes permanently.
- *Long Positions.* The success of the long positions established for the Fund by the Investment Manager depends in large part on the Investment Manager’s ability to accurately assess the fundamental value of those positions. An accurate assessment of fundamental value depends on a complex analysis of a number of financial and legal factors. No assurance can be given that the Fund will be in a position to assess the nature and magnitude of all material factors having a bearing on the value of the Fund’s long positions, or that the Investment Manager will accurately assess the impact of all factors of which it is aware.

- *Short Selling.* The Fund expects to sell securities short, which involves the sale of borrowed securities. In order to sell a security short, the Fund must borrow the security from a securities lender and deliver it to the buyer. The Fund is then obligated to return the security to the lender at its request (although the Fund remains free to return the security to the lender at any time prior to the lender's request). The Fund ordinarily fulfills its obligation to return a security previously sold short by acquiring it in the open market.
- *Equity Securities.* The Fund may invest without limitation in long and short positions in common stocks, preferred stocks and convertible securities of U.S. and foreign issuers. The Fund may also invest its assets in depository receipts relating to foreign securities. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and such fluctuations can be pronounced. The Fund may invest in equity securities without restriction as to market capitalization, such as those issued by smaller capitalization companies, including micro-cap companies. The prices of the securities of smaller companies may be subject to more abrupt or erratic market movements than larger, more established companies because these securities typically are traded in lower volume and the issuers typically are more subject to changes in earnings and prospects. The Fund may purchase securities in all available securities trading markets.
- *Common Stocks.* Common stocks are shares of a corporation or other entity that entitle the holder to a *pro rata* share of the profits, if any, of the entity without preference over any other shareholder or claim of shareholders, after making required payments to holders of the entity's preferred stock and other senior securities. Common stock usually carries with it the right to vote and frequently an exclusive right to do so.
- *Preferred Stocks.* Preferred stock generally has a preference as to dividends, and upon the event of liquidation, a preference over an issuer's common stock, but ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.
- *Foreign Investments.* The Fund may invest in American Depositary Receipts ("ADRs"), which are U.S. dollar-denominated equity and debt securities of foreign issuers or directly in foreign securities. Interest or dividend payments on such securities may be subject to foreign withholding taxes. Investments in foreign securities involve considerations and risks not typically associated with investments in securities of domestic companies,

including possible unfavorable changes in currency exchange rates, reduced and less reliable information about issuers and markets, different accounting standards, illiquidity of securities and markets, local economic or political instability and greater market risk in general.

- *Warrants and Rights.* The Fund may purchase warrants and rights. Warrants are derivative instruments that permit, but do not obligate, the holder to subscribe for other securities or commodities. Rights are similar to warrants, but normally have a shorter duration and are offered or distributed to shareholders of a company. Warrants and rights do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants and rights may be considered more speculative than certain other types of equity-like securities. In addition, the values of warrants and rights do not necessarily change with the values of the underlying securities or commodities and these instruments cease to have value if they are not exercised prior to their expiration dates.
- *Illiquid Securities.* The Investment Manager currently expects the Fund's strategy to generally focus on liquid securities. Nevertheless, the Fund may invest in securities which are not readily marketable, including privately placed securities. The Fund may find it difficult to readily dispose of illiquid investments in the ordinary course of business. In addition, illiquid investments may not have an established trading market. In the absence of an established trading market, the Investment Manager will, in accordance with its valuation policies then in effect, and in its sole discretion, value such investments in good faith at each time the Fund's NAV is determined. Accordingly, the NAV of the Fund will be based in significant part on the valuations placed on Fund assets by the Investment Manager without reference to an established market for such investments.
- *Currency Risks.* Although the Fund will normally invest and receive any returns on such investment in U.S. Dollars, the Fund's assets may be invested in securities and other financial instruments denominated in other currencies. Even if the trading of funds may be profitable in such currencies, such profits may be reduced or eliminated, or the underlying funds could experience losses, because of adverse currency fluctuations between the U.S. Dollars and the denominated currencies of the instruments it trades. The Fund may attempt to mitigate the risks associated with currency fluctuations at times by entering into, when available, forward or options contracts or by the purchase or sale of foreign currencies in connection with the acquisition, holding or disposition of investments, but is not obligated to do so. In addition, the Fund's investments may be adversely affected by the imposition of unfavorable mandatory exchange rates with respect to, or other limitations or prohibitions on, the exchange or repatriation of currencies in which the Fund holds positions or in which securities or other investments of the Fund are denominated.

- *Securities of Smaller Companies and Issuers.* The Fund may invest without limitation in securities originated by smaller companies and issuers. Small companies may offer greater opportunities for capital appreciation than larger companies, but investments in such companies may involve certain special risks. Securities issued by a small companies or issuers may be collateralized, however making an actual foreclosure on and subsequent sale of these assets may be lengthy and inefficient. Small companies may have limited product lines, markets, or financial resources and may be dependent on a limited management group. While the markets in securities of such companies have grown rapidly in recent years, such securities may trade less frequently and in smaller volume than more widely held securities. The market prices of these securities may fluctuate more sharply than those of other securities, and the Fund may experience some difficulty in establishing or closing out positions in these securities at prevailing market prices. There may be less publicly available information about the issuers of these securities or less market interest in such securities than in the case of larger companies, and it may take a longer period of time for the prices of such securities to reflect the full value of their issuers' underlying earnings potential or assets.
- *Securities Lending.* The Fund may lend its portfolio securities, primarily through one or more prime brokers. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially.
- *Initial Public Offerings.* The Fund may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited trading volume, 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. The limited number of shares available for trading in some initial public offerings may make it more difficult for the 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, 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.
- *Non-U.S. Securities Markets.* The Fund may trade securities on non-U.S. as well as U.S. markets. Because non-U.S. securities markets are generally less regulated than U.S. markets, the trading on those markets presents certain risks that may not be present in trading on U.S. markets. For example, some foreign securities exchanges are "principals' exchanges" in which performance is the responsibility only of the individual exchange member and not of an exchange clearing house.

- *Investment Techniques.* In implementing the Fund’s investment strategy, the Investment Manager may utilize techniques to increase the Fund’s long and/or short equity exposure by investing and trading in options, forward contracts, swaps and other derivative instruments.
- *Use of Derivatives.* The Fund may use derivative instruments, including, without limitation, option contracts, swap agreements and forward contracts, and derivative techniques for various hedging and/or speculative purposes. Among other things, the prices of derivative instruments can be highly volatile. Price movements of derivative instruments 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. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.
- *Swap Agreements.* While not a primary focus of the Fund, the Fund may enter into swap agreements. Swap agreements are typically two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to many years. In a standard “swap” transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments or indices. The Fund will not have any direct ownership of the underlying investments, and the Fund does not have any rights of ownership or other rights to the underlying investments, either directly or indirectly. The gross returns to be exchanged or “swapped” between the parties are generally calculated with respect to a “notional amount.” Swap transactions may be highly illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. As part of the financial reform legislation enacted in 2010, the swaps that the Fund may enter into may be “exchange-traded.” These markets are in the developmental stages and development of exchange trading may affect the utility of these markets to the Fund.
- *Options.* The Fund may purchase “put” and “call” options with respect to securities which it may otherwise purchase and with respect to various stock indices. If the Fund purchases a put option, the Fund acquires the right to sell the underlying security at a specified price at any time during the term of the option (for “American-style” options) or on the option expiration date (for “European-style” options). Purchasing put options may be used as a portfolio investment strategy when the Investment Manager perceives significant short-



term risk but substantial capital appreciation potential for the underlying security. The put option acts as an insurance policy, as it protects against significant downward price movement while it allows full participation in any upward movement. If the Fund is holding a stock which it feels has strong fundamentals, but for some reason may be weak in the near term, the Fund may purchase a put option on such security, thereby giving itself the right to sell such security at a certain strike price, and the market price of the underlying security on the date the Fund exercises the put, less transaction costs, will be the amount by which the Fund will be able to hedge against a decline in the underlying security. If during the period of the option the market price for the underlying security remains at or above the put's strike price, the put will expire worthless, representing a loss of the price the Fund paid for the put, plus transaction costs. If the price of the underlying security increases, the profit the Fund realized on the sale of the security will be reduced by the premium paid for the put option less any amount for which the put may be sold.

- *Hedging.* The Investment Manager may (but is not obligated to) hedge the Fund's positions as a way to obtain protection against adverse price movements. However, hedging is not without its costs and limitations. For example, hedging lowers the profit potential of the investment just as it lowers the loss potential. For this reason, the Investment Manager may choose to hedge only part of the Fund's portfolio and only for a limited period of time, or the Investment Manager may choose not to hedge at all. Also, hedging involves expense. The Fund will have to absorb the cost of purchasing the hedge instrument as well as the brokerage and related transaction charges. At times, such costs may outweigh the benefits of obtaining the hedge.
- *Portfolio Turnover.* The Fund's investment policies may change or could lead to frequent changes in the Fund's investments, particularly in periods of volatile market movements or for other reasons. Portfolio turnover generally involves some expense to the Fund, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities.
- *"Uninvested" Capital.* The Investment Manager may from time to time invest assets of the Fund in high quality short-term instruments such as U.S. Treasury securities. It is not possible to determine or even estimate the degree to which the Fund's assets will be "uninvested" from time to time, but the percentage of Fund assets invested in short-term instruments may be high from time to time. Such periods of "uninvestment" may have a dampening effect on the Fund's rate of return.
- *Stable NAV Risk.* The Investment Manager may from time to time invest the Fund's assets in "money market" funds or similar vehicles that seek to maintain a stable NAV per share of \$1.00 at all times. A significant enough market disruption or drop in market prices of securities held by a money market fund, especially at a time when such fund needs to

sell securities to meet its redemption requests, could cause the value of such fund's shares to decrease to a price less than \$1.00 per share. Such an occurrence would likely adversely affect the value of the Fund's investment in the money market fund as well as the Fund's ability to liquidate the investment.

## **Item 9 – Disciplinary Information**

**If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.**

Like other registered investment advisers, 1060 Capital is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor's evaluation of 1060 Capital or the integrity of 1060 Capital's management. No events have occurred at 1060 Capital that are applicable to this Item 9.

## **Item 10 – Other Financial Industry Activities and Affiliations**

**A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

1060 Capital is not actively engaged in a business other than giving investment advice to the Fund. Neither 1060 Capital nor any of its management persons are registered or have an application pending to register as a broker-dealer, or associated person of the foregoing, and 1060 Capital does not anticipate such affiliations in the future.

**B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities, disclose this fact.**

Neither 1060 Capital nor any of its management persons are registered or have an application pending to register as a futures commission merchant, commodity pool operator, commodity-trading adviser, or associated person of the foregoing. 1060 Capital does not anticipate such affiliations in the future.

**C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

- 1. Broker-dealer, municipal securities dealer, or government securities dealer or broker**
- 2. Investment company or other pooled investment vehicle (including a mutual fund, closed- end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)**
- 3. Other investment adviser or financial planner**
- 4. Futures commission merchant, commodity pool operator, or commodity trading advisor**
- 5. Banking or thrift institution**
- 6. Accountant or accounting firm**
- 7. Lawyer or law firm**
- 8. Insurance company or agency**
- 9. Pension consultant**
- 10. Real estate broker or dealer**
- 11. Sponsor or syndicator of limited partnerships.**

1060 Capital does not have arrangements with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships that are material to its advisory services, the Fund or its investors.

As mentioned above in Item 4, the General Partner is a relying adviser subject to registration with the SEC and together with the Investment Manager operates as a single advisory business.

1060 Capital has and will continue to develop relationships with professionals who provide services it does not provide, including legal, accounting, banking, tax preparation, insurance brokerage, and other personal services. 1060 Capital’s Client and industry participant relationships and arrangements are material to its advisory business and may raise conflicts of interest. None of the above relationships, however, create a material conflict of interest with any of 1060 Capital’s Clients or investors.

From time to time, 1060 Capital may receive training, information, promotional material, meals, gifts, or prize drawings from vendors and others with whom it may do business or to whom it may make referrals. At no time will 1060 Capital accept any benefits, gifts, or other arrangements that are conditioned on directing individual Client transactions to a specific security, product, or provider. Similarly, the personnel of the Investment Manager and/or its affiliates may speak at conferences and programs for potential investors interested in investing in hedge funds that are sponsored by the Fund’s prime broker. Through such capital introduction events, prospective investors have the opportunity to meet with 1060 Capital. Neither 1060 Capital nor the Fund compensates the prime broker for organizing such events or for investments ultimately made by prospective investors

attending such events.

**D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

1060 Capital does not recommend or select other investment advisers for its Clients.

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

**A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.**

##### **Code of Ethics**

As fiduciaries, 1060 Capital and its employees have certain legal obligations to put Clients' interests ahead of their own. 1060 Capital has adopted a written Code of Ethics based on principles of openness, honesty, integrity, and trust. At least once a year, each 1060 Capital employee is required to acknowledge this Code and agree to be bound by it.

1060 Capital's Code of Ethics covers standards of business conduct, confidentiality of client information, personal trading requirements, insider trading, reporting of personal securities transactions, restrictions on accepting and giving of significant gifts, political contribution policies, and reporting of certain gifts and business entertainment items, among other things. The Code of Ethics also includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated.

Employees of 1060 Capital who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, suspension, or dismissal. Employees are also required to promptly report to the Chief Compliance Officer any violations of the Code of Ethics of which they become aware.

1060 Capital will provide a copy of its Code of Ethics to any existing or prospective investor upon request to its Chief Compliance Officer, Andrew Haley, at (312) 361-3360.

**B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address**

conflicts that arise.

**Examples: (1) You or a related person, as principal, buys securities from (or sells securities to) your clients; (2) you or a related person acts as general partner in a partnership in which you solicit client investments; or (3) you or a related person acts as an investment adviser to an investment company that you recommend to clients.**

### **Participation or Interest in Client Transactions**

1060 Capital and certain employees and affiliates of 1060 Capital may invest in and alongside the Fund, either through the General Partner, as direct investors in the Fund, or otherwise. The Fund or the General Partner, as applicable, may exempt such person from all or a portion of the Management Fee or Incentive Allocation. For further details regarding these arrangements, as well as conflicts of interest presented by such arrangements, please see Item 6.

1060 Capital generally will not affect any principal or agency cross securities transactions for client accounts without first obtaining the relevant advisory board and/or limited partner approval. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells a security to an advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account.

Although it does not expect to, from time to time, the Investment Manager and its affiliates may complete securities trades (including outright purchases and sales) between a Fund and other Clients of 1060 Capital or its affiliates, known as a cross trade. In the rare event this occurs, any cross trading transactions conducted between the Fund and 1060 Capital's other Clients or affiliates will be made at the then market rate for similar transactions between unrelated parties and only where an independent pricing mechanism (such as the last sales price on the exchange where the security is principally traded) is available. Transactions between the Fund and other Clients of the Investment Manager or its affiliates are completed for no consideration other than cash payment against prompt delivery of the relevant security or other instrument, are completed at current market prices, and do not involve any brokerage commissions, clearing charges, other transaction costs or fees, or other remuneration.

### **Conflicts of Interest**

In addition to the conflict of interest arising from trading by 1060 Capital or its principals or employees for their own accounts, as discussed immediately above, and conflicts relating to 1060 Capital's receipt of performance-based compensation, which are discussed in Item 6 above, Clients or investors in the Fund are subject to additional conflicts of interest. The offering documents for the Fund detail a complete description of what 1060 Capital believes to be the most significant conflicts of interest

associated with an investment in the Fund. Investors should carefully consider the conflicts of interest described herein prior to investing in a Fund.

The Investment Manager, who is responsible for the investment decisions made on behalf of the Fund and the Managed Account, may in the future be responsible directly or indirectly for investment decisions made on behalf of other investment vehicles and other Managed Accounts. The Investment Manager may take action with respect to the Funds that differ from that taken with respect to other pooled investment vehicles and Managed Accounts advised by the Investment Manager. To the extent a particular investment is suitable for both a Fund and another Client, such investment will be allocated between the applicable Funds and such other Client *pro rata* based on assets under management or in some other manner which the Investment Manager determines is fair and equitable under the circumstances to all Clients, including such Fund(s).

The fact that the General Partner and 1060 Capital's principals and employees have financial ownership interests in the Fund creates a potential conflict in that it could cause 1060 Capital to make different investment decisions than if such parties did not have such financial ownership interests. 1060 Capital may have an incentive to favor accounts in which such persons have an interest with respect to trading opportunities, trade allocation, and allocation of investment opportunities. Any such risks, however, would be equally applicable to the General Partner's own capital account with respect to the Fund.

1060 Capital has adopted rules intended to detect and prevent conflicts of interest that arise when 1060 Capital's related persons own, buy, or sell securities. 1060 Capital's Code of Ethics requires 1060 Capital employees to place the interests of Clients first, and, on an annual basis, each 1060 Capital employee must certify that he or she has read and understands the Code of Ethics as well as has complied with its provisions. 1060 Capital employees are permitted to make personal securities transactions for their own accounts provided they abide by the limitations imposed in the Code of Ethics. Principals and employees must furnish to 1060 Capital's Chief Compliance Officer duplicate copies of their brokerage statements or quarterly transaction reports along with annual holding reports.

Each Fund and Managed Account's investors include persons or entities resident in various jurisdictions, including the United States and other countries, who may have conflicting investment, tax and other interests with respect to their investments. Trading decisions made by the Firm may result in different after-tax returns being realized by different limited partners and other investors. As a consequence, conflicts of interest may arise in connection with decisions made by 1060 Capital that may be more beneficial for one investor than another investor, especially with respect to investors' individual tax situations. 1060 Capital considers the investment and tax objectives of each Fund as a whole, and not the individual investment, tax or other objectives of any particular investor.

**C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

### **Personal Trading**

1060 Capital's employees are permitted to make securities transactions in their personal accounts, subject to certain limitations. In particular, the General Partner, 1060 Capital, and their related persons may not knowingly trade for the accounts of Clients other than the Fund or for their own accounts in a manner that is detrimental to the Fund, and they may not seek profit from their knowledge that the Fund intends to engage in particular transactions. Employee personal trading presents potential conflicts in that an employee could make improper use of information regarding a Client's holdings or future transactions or research paid for by the Clients. 1060 Capital manages the potential conflicts of interest inherent in employee trading by strict enforcement of its Code of Ethics, which includes pre-clearance and reporting requirements.

1060 Capital's Code of Ethics prohibits it and its personnel from trading for Clients or for themselves, or recommending trading, in securities of a company while in possession of material nonpublic information ("Inside Information"), and from disclosing such information to any person not entitled to receive it, in either case in contravention of applicable securities laws. 1060 Capital has adopted policies and procedures reasonably designed to control and monitor the flow of Inside Information to and within 1060 Capital as well as prevent trading based on Inside Information.

1060 Capital maintains a restricted list regarding issuers about whom it has inside information. Pre-clearance is required for initial public offerings and certain limited offerings. Supervised persons are required to submit their brokerage account statements or quarterly transaction reports along with annual holding reports to the Chief Compliance Officer for review to confirm employees are abiding by 1060 Capital's personal trading requirements.

**D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Please refer to Items 11.A, 11.B, and 11.C.

### **Item 12 – Brokerage Practices**

**A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g.,**

commissions).

- 1. Research and Other Soft Dollar Benefits.** If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”), disclose your practices and discuss the conflicts of interest they create.
  - a. Explain that when you use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.
  - b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your clients’ interest in receiving most favorable execution.
  - c. If you may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.
  - d. Disclose whether you use soft dollar benefits to service all of your clients’ accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.
  - e. Describe the types of products and services you or any of your related persons acquired with client brokerage commissions (or markups or markdowns) within your last fiscal year.
  - f. Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for soft dollar benefits you received.

Transactions for the Fund and Managed Account are allocated to broker-dealers on the basis of best execution available in light of the overall quality of brokerage, prime brokerage, financing, and other services provided. 1060 Capital is authorized to determine the broker or dealer to be used for each securities transaction for its Funds and Managed Account. In selecting brokers or dealers to execute transactions, 1060 Capital will consider the following factors, among others: the financial stability and reputation of the broker, 1060 Capital’s experience with the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping, and other services provided by such broker. 1060 Capital need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. 1060 Capital does



not request or permit investors to direct brokerage.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. The Investment Manager will limit the use of “soft dollars” to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e). Research and brokerage services within Section 28(e) may include, but are not limited to: research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; analyses concerning specific securities, companies or sectors; and data services (including services providing market data, company financial data and economic data); services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (*i.e.*, connectivity services between an investment manager and a broker-dealer); and trading software operated by a broker-dealer to route orders.

Research and brokerage services obtained by the use of commissions arising from the Fund or Managed Account’s portfolio transactions may be used by 1060 Capital in its other investment activities and thus, the Fund or Managed Account may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

Although 1060 Capital will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable, and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of “mixed use” products or services create a potential conflict of interest between the Investment Manager and its Clients.

- 2. Brokerage for Client Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**
  - a. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving client referrals, rather than on your clients’ interest in receiving most favorable execution.**
  - b. Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for client referrals.**

In selecting brokers and negotiating commission rates, the Investment Manager will take into account, among other things, the financial stability and reputation of brokerage firms as well as the research,

brokerage, or other services provided by such brokers. 1060 Capital may place transactions with a broker or dealer that (i) provides it (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer; or (ii) refers investors to the Fund and/or Managed Account or other product advised by 1060 Capital (or an affiliate), if otherwise consistent with seeking best execution, provided the Investment Manager is not selecting the broker-dealer solely in recognition of the opportunity to participate in such capital introduction events or the referral of investors. The selection of a broker (including the prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances, and provide other services may be influenced by, among other things, the provision by the broker of the following: capital introduction; marketing assistance; consulting with respect to technology, operations, and equipment; commitment of capital; access to company management; and access to deal flow. Neither the General Partner nor any of its Fund and/or Managed Account separately compensates any broker for any of these other services.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing research services.

The Fund and Managed Account's securities transactions generate brokerage commissions and other compensation, all of which the Fund and/or Managed Account, not the Investment Manager, will be obligated to pay. The Investment Manager has complete discretion in deciding what brokers and dealers the Fund and/or Managed Account will use and in negotiating the rates of compensation the Fund and/or Managed Account will pay.

As mentioned in Item 10, above, from time to time, the personnel of the Investment Manager and/or its affiliates may speak at conferences and programs for potential investors interested in investing in hedge funds, which are sponsored by the Fund's prime broker and others. Through such capital introduction events, prospective investors have the opportunity to meet with 1060 Capital. Neither 1060 Capital nor the Fund compensates these brokers for organizing such events or for investments ultimately made by prospective investors attending such events. Such events and other services (including, without limitation, capital introduction and business consulting services and technology) provided by a broker(s) to the Fund and/or the Investment Manager may be a factor in deciding whether to use such broker in connection with brokerage, financing, and other activities of the Fund.

1060 Capital recognizes that it may have an incentive to favor broker-dealers that provide capital introduction services to 1060 Capital or refer investors. 1060 Capital receives asset-based fees and accordingly would receive a financial benefit from the increase in assets under management that result from capital introduction services and investor referrals. Similarly, 1060 Capital receives a performance-based fee and accordingly could receive a larger performance-based fee in any given

profit period as a result of an increase in assets under management that results from capital introduction services and investor referrals. The potential for higher fees presents a potential conflict in that 1060 Capital has an incentive to favor broker-dealers that provide services that have a direct impact on fees even if those broker-dealers rate unfavorably in other categories.

1060 Capital addresses this potential conflict by periodically reviewing its broker-dealer arrangements and evaluating each broker-dealer's performance in a variety of categories, including but not limited to, the broker or dealer's execution capabilities, reputation and access to the markets for the securities being traded. Other considerations include, among other things, the amount of transaction costs, the quality of execution, the expertise in particular markets, the experience and financial stability of the firm, the availability of stock loans, the breadth of investment products made available, the quality of service, the familiarity both with investment practices generally and the techniques employed by 1060 Capital, the research and analytic services and clearing and settlement capabilities, the capability to facilitate transfers and payments to and from accounts, and the availability of other products and services, subject at all times to principles of best execution. Such reviews are expected to enable 1060 Capital to determine when broker-dealers that outperform in capital introduction and investor referrals also underperform in other areas. In such situations, 1060 Capital may provide heightened scrutiny to its relationship with such a broker-dealer.

Goldman, Sachs & Co. has been appointed as the prime broker and custodian for the Fund's securities transactions. The General Partner, in its sole and absolute discretion, may select other or additional custodians or brokers to act as prime broker(s) to the Fund.

### **3. Directed Brokerage.**

- a. If you routinely recommend, request or require that a client direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their clients to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of client transactions, and that this practice may cost clients more money.**
- b. If you permit a client to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of client transactions. Explain that directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.**

1060 Capital does not have any directed brokerage arrangements.

**B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

1060 Capital aggregates the purchase or sale of securities for Client accounts when to do so is in the Client's best interest. In such circumstance, the Firm will generally allocate on a *pro rata* basis among Clients, unless investment restrictions or investment guidelines otherwise require.

### **Item 13 – Review of Accounts**

**A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.**

The principals of 1060 Capital regularly review the portfolios of the Fund and Managed Account to determine if they are consistent with applicable investment objectives and restrictions, as detailed in the relevant vehicle's governing documents. 1060 Capital also considers whether the portfolio should change investments based on various factors, including but not limited to, changes in company fundamentals, advisers, key industry personnel, analysts, news and press releases, general market conditions and assessments of the financial consequences of world events derived from general information, or such other material as is appropriate under the particular circumstances.

Andrew Haley, the Chief Compliance Officer, reviews records of trades placed for the Fund and Managed Account on a regular basis. The Fund's accounts are also reviewed on a regular basis by ALPS Alternative Investment Services, 1060 Capital's third party administrator, to price the portfolio based on independent third party pricing sources or methodologies approved by 1060 Capital. ALPS Alternative Investment Services also ensures that 1060 Capital's records are accurate and in agreement with those of its custodian.

**B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.**

Client reviews on an other-than-periodic basis would occur in the event of performance anomalies and market volatility.

**C. Describe the content and indicate the frequency of regular reports you provide to Clients regarding their accounts. State whether these reports are written.**

1060 Capital distributes monthly and annual written reports to Fund investors. Monthly reports contain summary information regarding performance and exposures, including the estimated NAV as

compared to the previous calendar month. Annual reports are delivered within 120 days of year-end and include a summary of investments and performance, as well as annual audited financial statements and audited balance sheet. All reports are sent to investors in writing and are delivered electronically. The Fund may make interim reports available solely in electronic form on the website of the third party administrator, ALPS Alternative Investment Services. 1060 Capital has contact with investors (personal visits, telephone calls and e-mails) throughout the year as conditions warrant. 1060 Capital distributes written reports to Managed Account clients as negotiated and reflected in the IMA for the Managed Account.

#### **Item 14 – Client Referrals and Other Compensation**

**A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

1060 Capital does not receive any monetary compensation or any other economic benefit from a non-client for 1060 Capital's provision of investment advisory services to a Client.

**B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.**

1060 Capital does not use third-party marketers to assist in its fundraising efforts. 1060 Capital may, from time to time, in the future enter into solicitation agreements pursuant to which it compensates one or more third parties for client referrals that will result in the provision of investment advisory services by 1060 Capital. Any cash solicitation agreements will comply with Rule 206(4)-3 of the Advisers Act.

#### **Item 15 – Custody**

**If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.**

The Investment Advisers Act of 1940 Rule 206(4) (the "Custody Rule") requires that pooled investment vehicles advised by the adviser either undergo an annual GAAP financial statement audit or be subject to a surprise custody examination by an SEC-registered auditing firm. The Fund General Partner is deemed, under federal securities laws, to have custody over its Client's funds by virtue of its ability to deduct fees. The Firm has elected to undergo an annual GAAP financial statement audit

of its Fund, copies of which are delivered to underlying fund investors within 120 days of year-end, thus satisfying the Custody Rule's requirements.

1060 Capital does not take physical possession of Client money or securities; capital contributions are directly sent or wired into the Investment Manager's custodial accounts. 1060 Capital's custodians are listed in its Form ADV Part 1 and 1060 Capital receives monthly statements from its qualified custodian and prime broker, Goldman, Sachs & Co.

1060 Capital does not maintain custody of its Managed Account client and thus this account is not subject to these same custody requirements.

#### **Item 16 – Investment Discretion**

**If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

Investment advice is provided directly to the Fund and Managed Account, subject to the discretion and control of the General Partner, and not to investors in the Fund and Managed Account individually. 1060 Capital and its General Partner have discretionary authority based on the governing documents of each vehicle to buy and sell securities or other investments and to determine the amount of such investments to be bought and sold. The terms upon which 1060 Capital serves as an investment manager of the Fund and Managed Account are established at the time the Fund or Managed Account is established. 1060 Capital's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

To become a limited partner in the Fund, an investor must execute a subscription agreement with the Fund. Such subscription agreements, and the other governing documents of the applicable Fund, contain a power of attorney that generally grants the General Partner, an affiliate of 1060 Capital, certain powers related to the orderly administration of the affairs of the Fund.

#### **Item 17 – Voting Client Securities**

**A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.**

By virtue of the IMAs, 1060 Capital has the authority to vote on behalf of its Clients in any proxy solicitations that may occur with respect to the issuers of securities held by the Fund. 1060 Capital has adopted a proxy voting policy pursuant to SEC Rule 206(4)-6 to describe how it votes its Clients' proxies. 1060 Capital generally will not vote proxies for any securities 1060 Capital no longer owns unless 1060 Capital possesses a strong opinion regarding such a matter. In the event 1060 does vote proxies on behalf of its clients, the Chief Compliance Officer will retain all proxy voting records in accordance with SEC Rule 206(4)-6. In general, investors cannot request that 1060 Capital vote in a particular way on any specific proposal.

Investors may obtain a copy of 1060 Capital's complete proxy voting policy upon request, free of charge, from 1060 Capital's Chief Compliance Officer, Andrew Haley, at (312) 361-3360. Investors may also obtain information from 1060 Capital's, free of charge, about how 1060 Capital voted any previous proxies.

**B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

Not applicable.

## **Item 18 – Financial Information**

**A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

- 1. The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.**
- 2. Show parenthetically the market or fair value of securities included at cost.**
- 3. Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X.**

1060 Capital does not require prepayment of more than \$1,200 in fees per client six months or more in advance.

**B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

1060 Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to investors.

**C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

1060 Capital has not been the subject of a bankruptcy proceeding.