



Sapphire Star Capital LLC

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This brochure provides information about the qualifications and business practices of Sapphire Star Capital LLC. If you have any questions about the contents of this brochure, please contact us at 425.576.4083 or via email – mjborgen@Sapphirestarcapital.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. Sapphire Star Capital LLC is registered with the United States Securities and Exchange Commission (SEC). Registration with the SEC does not imply any particular level of skill or training.

Additional information about Sapphire Star Capital LLC is also available on the SEC's website at www.advisorinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our CRD number is 226665.

This document is not an advertisement for the advisory services of Sapphire Star Capital LLC, nor an offer to sell or the solicitation of an offer to purchase interests of any fund managed by Sapphire Star Capital LLC.

Item 2 - Material Changes

Sapphire Star Capital LLC is required to update this Brochure annually, or more frequently in the event of certain material changes. This section outlines and summarizes the specific changes made to the Brochure since our last update on July 28th, 2015.

We have updated our Contact Information.

We have updated Item 4 – Advisory Business to reflect an update to our assets under management.

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Item 4 - Advisory Business

Sapphire Star Capital LLC, formed in February, 2015, is referred to in this document as “Sapphire Star Capital”, “Sapphire Star”, “the Company”, “us”, “we” or “our”. In this document we refer to current and prospective clients of Sapphire Star as “you”, “client”, or “your”. Michael J. Borgen (“Michael”) is the sole member of Sapphire Star Capital LLC.

Prior to establishing Sapphire Star Capital in 2015, Mr. Borgen was a Senior Portfolio manager at Navellier & Associates for nearly 20 years. Mr. Borgen started his career as an intern at Navellier focusing on quantitative research and was offered a full-time Quantitative Research Analyst position at Navellier in 1996 focusing on developing systems branch out from the firms flag ship Small & Small to Mid-Cap Growth portfolios.

In 1997, Mr. Borgen developed the Navellier Small Cap Value Strategy and acted as the strategy’s portfolio manager when the firm launched the strategy as a no load mutual fund with an inception date of December 19, 1997 through August of 2002. In 1998, Mr. Borgen took over the reigns as the portfolio manager of the Navellier Mid Cap Growth Strategy and continued to manage the strategy.

In 2002, Mr. Borgen assumed responsibility for the management of the Micro-Cap Growth, Mid Cap Growth, and the long side of the Navellier Heritage Strategy; a Long/Short Equity Strategy. In January of 2003, Mr. Borgen assumed the portfolio manager role for the Navellier Small Cap Growth Strategy.

In 2004 Mr. Borgen was promoted to Senior Portfolio Manager and continued with his responsibilities of portfolio management and client communications.

In 2006 and 2009 respectively, Mr. Borgen created the Large Cap Core and Covered Call strategies. Both products were created with the intent of reducing volatility to counter the market irrationality and provide greater stability during adverse market fluctuations.

Mr. Borgen has his Bachelor of Science in Finance from the University of Nevada, Reno and his Master of Science in Economics, with a specialization in finance, also from the University of Nevada, Reno.

As of the date of this brochure, Sapphire Star has \$12,441,061 in discretionary assets under management and \$90,288,220 in non-discretionary assets under management.

Types of Advisory Services

Sapphire Star provides sub-advisory investment management services on a non-discretionary basis to other Investment Advisors. Sapphire Star also provides investment management services on a discretionary basis to privately offered pooled investment vehicles exempt from registrations under the Investment Company Act of 1940, as amended (the “Fund” or “Funds”). Investment advice is provided directly to the Fund. Sapphire Star does not provide investment advice to investors in the Fund. Sapphire Star may, in the future, organize additional investment vehicles that follow an investment program similar to or different from the investment program of the Sapphire Star Fund(s), however, has no

present intent to do so. Sapphire Star is currently offering advisory service to Sapphire Star Partners L.P., (the “Fund”).

Advisory services are tailored to achieve the Funds’ objectives. However, Sapphire Star has the authority to select which and how many securities and other instruments to buy or sell without consultation with the Fund or the investors in the Fund. Neither the Fund nor the investors in the Fund may impose restrictions on investing in certain types of securities. A more detailed description of the investment strategy and related risks of the Fund is included in Item 8 below and in the Fund’s offering circular.

The Fund that we currently manage is listed in Item 10. Sapphire Star recommends to clients and potential clients, interests in the Fund on a non-discretionary basis, whereby each client makes the decision whether or not to invest in the Fund. Sapphire Star manages Fund assets on a discretionary basis.

The recommended Fund offers its interest through a limited partnership (“LP”) structure. The detailed terms applicable to investors in the Fund is described in the organizational documents and the offering circular of the Fund.

Fund Recommendations to Clients; Investment Restrictions

Sapphire Star may recommend the purchase of LP interests in the Fund to persons who meet qualification requirements for an offering following an evaluation of the prospective client’s particular financial circumstances, investment goals, liquidity needs and time horizons. In the event Sapphire Star recommends additional Funds or changes to limited partnership interest(s), Sapphire Star will enquire about changes in the client’s circumstances or goals.

An investment in Sapphire Star advised Fund(s) is illiquid and subject to strict limitations on withdrawals. Investors may withdraw only in the following circumstances:

As a limited partner, you may, on at least 30 days’ advance written notice to Sapphire Star, withdraw all or part of your Capital Account balance as of the last day of any calendar quarter. In addition, if Mr. Borgen were to die or become disabled for a period of more than 60 days at a time when he is the principal portfolio manager of the Fund or if he were to resign as the principal portfolio manager of the Fund, you will be provided prompt notice. You will then have a special right to withdraw all or any portion of your Capital Account balance, on at least 30 days’ advance notice, at the end of the calendar month in which the 30-day notice expires. In all cases the amount of any partial withdrawal must be at least \$100,000 and must not reduce your Capital Account balance below the lesser of \$1,000,000 and your initial Capital Contribution. Limited Partners requesting withdrawal will bear the risk of any decline in value of your partnership interest during the period from the date of the notice of withdrawal until the effective withdrawal date.

Notwithstanding the above, Sapphire Star may suspend the right of withdrawal or postpone the date of payment for any period during which:

- Any exchange or over-the-counter market on which a substantial part of the securities owned by the Fund are traded is closed (other than weekend and holiday closings) or

- trading on any such exchange or market is restricted or suspended;
- There is a state of emergency, as a result of which it is not reasonably practicable for the Fund to dispose of its assets or to determine their value fairly;
 - Any of the means normally employed in ascertaining the value of a substantial part of the Fund's assets breaks down or when for any other reason the value of such assets cannot reasonably be ascertained;
 - The amount of requested withdrawals would (in the opinion of Sapphire Star) result in a disorderly liquidation of Fund investments or a violation of the Fund's investment policies; or
 - There are such other extraordinary circumstances, as Sapphire Star determines in good faith, that cause withdrawals or such payments to be impracticable under existing economic or market conditions or conditions relating to the Fund (such as the receipt from Fund investors of notices of withdrawal of amounts aggregating more than twenty-five percent of the capital account balances of all of the Fund investors or the inability or inadvisability, in Sapphire Stars opinion, to liquidate securities.

Sapphire Star may waive or permit exceptions for any investor in the Fund.

Item 5 - Fees and Compensation

Sapphire Star receives management fees as compensation for performing sub-advisory services to other Investment Advisors. Sapphire Star also receives management fees as compensation for performing advisory services to the Fund. The management fee for Sapphire Star Capital Fund, LLC is 2% per annum of the net assets of the Limited Partners. The management fees are payable monthly in advance based on the net asset value of each Limited Partner's Capital Account on the first day of each calendar month. Sapphire Star may, in its sole discretion and without the consent of the other Fund investors, waive or reduce the management fee for limited partners, including for limited partners that are principals, employees or affiliates and/or for certain large or other investors it deems to be strategic.

The capital accounts of the Fund were created at the inception of the Fund based on the amount committed by investors the Fund. Any limited partners admitted on a day other than the first day of the month, will be charged a pro rata portion of the management fee corresponding to the number of days remaining in the month.

In the case of a termination of our investment management agreement with the Fund prior to the end of a month, the management fees for such period would be pro-rated to the date of such termination with any excess payment refunded to the Fund and credited to the limited partners' capital account. In addition, the Fund is subject to an incentive allocation or fee which is payable to Sapphire Star. Please refer to Item 6 below for an explanation of this fee.

Potential investors should review the offering circular of the Fund for a complete disclosure of fees and expenses.

Item 6 - Performance-Based Fees

In addition to the management fee, 20 percent of the net profits initially allocated to each limited partners' capital account is allocated to the capital account of Sapphire Star as of the end of each fiscal year. In the event that a limited partner withdraws at any time other than the end of a fiscal year, such allocation or fee is made with respect to such partner on the applicable withdrawal date. The allocation or fee is subject to a loss carryforward limitation as outlined in the Fund offering circular.

The incentive allocation is calculated as follows: I'm thinking we're missing some language here
A portion of net profits initially allocated to each investor's capital account is allocated to the capital account of Sapphire Star as of the end of each fiscal year. In the event that a limited partner withdraws at any time other than at the end of a fiscal year, the allocation or fee is allocated to the capital account of the withdrawing partner on the requested withdrawal date.

Sapphire Star may, in its sole discretion, waive or reduce the allocation or fee for limited partners that are principals, employees or affiliates and/or for such limited partners it deems to be strategic.

The capital accounts of the Fund were created at the inception of the Fund based on the amount committed by investors the Fund. Any limited partners admitted on a day other than the first day of the month, will be charged a pro rata portion of the management fee corresponding to the number of days

remaining in the month.

In the case of a termination of our investment management agreement with the Fund prior to the end of a month, the management fees for such period would be pro-rated to the date of such termination with any excess payment refunded to the Fund and credited to the limited partners' capital account. In addition, the Fund is subject to an incentive allocation or fee which is payable to Sapphire Star. Please refer to Item 6 below for an explanation of this fee.

Potential investors should review the offering circular of the Fund for a complete disclosure of fees and expenses.

Item 7 - Types of Clients

Sapphire Star provides investment advisory services to high net worth individuals and other Investment Advisors. Although Sapphire Star provides discretionary management services directly to the Fund, each investor in the Fund is treated as a Sapphire Star client to whom we owe a fiduciary duty. Before you make an investment in our Fund, we obtain information from you to make a determination as to the suitability of the investment based on certain criteria.

Each Fund investor is required to be an "accredited investor" meeting one of the qualifications below:

1. a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person;
2. a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or
3. a trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

In addition, each Fund investor must also meet the definition of "qualified client":

1. Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,000,000. For purposes of calculating a natural person's net worth:
 - a. The person's primary residence must not be included as an asset;
 - b. Indebtedness secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time the investment advisory contract is entered into may not be included as a liability (except that if the amount of such indebtedness outstanding at the time of calculation exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess must be included as a liability); and
 - c. Indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the residence must be included as a liability; or

2. A natural person who has assets under management with Sapphire Star in excess of \$1,000,000.

The typical minimum investment for our Fund is \$1,000,000, however, Sapphire Star has the discretion to decrease or waive the minimum initial investment as long as you qualify to invest based on all other suitability and regulatory requirements applicable to the Fund.

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

Investment Objective and Strategy

The investment objective of our Fund is to achieve long-term capital appreciation through investments in securities of a core group of businesses and to hold such securities for the long term. We will invest in listed marketable securities, generally, but not exclusively, equity and equity-related securities that are traded on U.S. exchanges. This will include utilizing derivative securities such as options (puts and calls), and may also invest utilizing warrants, preferred stocks, non-U.S. securities and futures. The Fund will also engage in hedging strategies, margin trading and short selling.

There is no assurance that our strategy and methodology will be successful over any given time period, or that the Fund will achieve our stated investment objective(s).

Methods of Analysis

Our investment process begins with an evaluation based on several standard valuation metrics, both quantitative and qualitative in nature, as well as a few proprietary metrics developed by Sapphire Star. We have a strong bias against excess volatility and thus we will seek out businesses that have historically demonstrated below average volatility based on several volatility metrics. We also have a bias toward businesses that produce constant and improving margins and that have demonstrated the ability to grow revenues, cash flow, and earnings. We recognize the difference between a good stock and a good business, and therefore, have the patience to wait for select investments in opportunistic holdings where a catalyst for instant performance is not present. In keeping with our bias against volatility, we will seek out, utilizing proprietary risk/reward metrics, asymmetric opportunistic investments that we believe will increase the Fund's risk/return characteristics by ultimately decreasing downside risk.

The performance of the Fund's core equity positions is expected to be enhanced through the prudent use of shorter term asymmetric securities, including derivatives, leverage, and other hedging strategies. The purpose of utilizing derivatives is to take advantage of short-lived price discovery mismatches that are a result of fluctuations in the volatility of the Fund's core equity holdings, and that we believe can be exploited. Allocations to cash may fluctuate at times with the Fund holding securities that effectively place the Fund in a position of being more than 100% long. At times of adverse market conditions or when we believe that short-term future market advancement is inhibited, the Fund may hold securities that effectively place the partnership in a net short position. A net short position is not expected to be the normal position of the Fund as we have a bias that the market generally produces positive long-term returns.

You should consider an investment in the Fund to be a long-term investment, not intended to meet your short-term liquidity needs.

Material Risks

Any investor considering an investment in our Fund should consider it to be a speculative investment and one that is not intended to be a complete investment program. Our Fund is suitable only for sophisticated persons who can or could bear the economic risk of the loss of the entire investment and have a limited need for liquidity related to this investment. There can be no assurances that our Fund will achieve its investment objective. Furthermore, you should carefully evaluate the following considerations, in conjunction with complete details outlined in our offering documents, prior to investing.

General Risk of Loss; Liquidity. Investing in securities involves risk of loss, including the possibility of losing all of your initial investment as well as any unrealized gains on investments. In addition, securities held in the Fund may underperform in comparison to the general securities markets or other asset classes. Our Fund may be invested in a variety of unconventional securities and other assets. A clear understanding of your tolerance for risk is essential before choosing to work with Sapphire Star. We do not guarantee returns and cannot eliminate risk in our Fund. In addition, we cannot offer any guarantees or promises that your personal vision or financial goals and objectives will be met. In addition, general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances can materially affect the Fund. For example, any of these factors may affect price volatility and the liquidity of instruments held in the Fund. Even an instrument that generally is, or recently was, liquid may unexpectedly and suddenly become illiquid. Such volatility or illiquidity could result in substantial losses.

Short Sales. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on investments held in the Fund. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There is a risk that the Fund would have to return the securities it borrows, in connection with a short sale, to the securities lender on short notice. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the Fund may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

Option Transactions. The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change in price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received. In addition, an option purchased or sold over-the-counter involves counterparty solvency risk.

Margin Borrowing. The Fund is authorized to engage in margin borrowing under Regulation T of the Federal Reserve Board’s margin rules. Margin borrowing increases returns to investors if the Fund

earns a greater return on leveraged investments than the cost of such leverage. However, the use of margin borrowing exposes the Fund to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of leverage related to such investments. In case of a sudden, precipitous drop in asset value, the Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred.

Lack of Diversification. The Fund is not as diversified as other investment vehicles. Accordingly, investments in the Fund are subject to more rapid change in value than would be the case if the Fund were required to maintain a wide diversification among types of securities, geographical areas, issuers, and industries.

Small- and Mid-Capitalization Companies. The Fund may invest in smaller and less established companies (i.e., small-capitalization and mid-capitalization companies). These smaller companies may present greater opportunities for capital appreciation, but typically are more volatile and involve greater risk than companies that are larger and more established. Such smaller companies may have limited product lines, markets or financial resources and their securities may trade less frequently and in more limited volumes than the securities of larger, more mature companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of the securities of other issuers and these companies may be more likely to fail, which could result in substantial losses.

Valuation. Fund assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

Management. Our judgments regarding the attractiveness, value or potential appreciation of a particular asset class or investment may be incorrect and there is no guarantee that any asset class or instrument will perform as we expect. We may fail to implement a strategy as we intended or we may not identify all risks associated with a strategy or a shift in strategy, all of which may cause substantial losses.

Extraordinary Events. Global terrorist activity and armed conflicts may negatively affect general economic conditions, including sales, profits and production, and may materially affect prices and/or impair our trading facilities and infrastructure or the trading facilities and infrastructure of the exchanges or markets on which we trade.

Regulatory Developments. The legal, tax and regulatory environment worldwide in the financial industry is evolving, and changes in regulations affecting the financial industry, including Sapphire Star and the issuers of financial instruments held in the Fund, may have a material adverse effect on our ability to pursue the investment strategies described above or the value of the instruments held in the Fund. There has been an increase in scrutiny of the financial industry by governmental agencies and self-regulatory organizations. Various national governments have expressed concern regarding the disruptive effects of speculative trading and the need to regulate the financial markets in general. New

laws and regulations or actions taken by regulators that restrict our ability to pursue our investment strategies or conduct business with broker-dealers and other counterparties could adversely affect the Fund.

Concentration. The Fund may hold highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.

Limited Withdrawal Rights. There are limited withdrawal rights and restrictions on transfer, which creates a higher liquidity risk. You should view an investment in our Fund as a long-term investment.

Fees. Fund fees and expenses may be a higher percentage of net assets than traditional investment strategies and qualified investors will be subject to performance or incentive fees or allocations (described in Item 6), in addition to management fees.

Key Man Risk. Sapphire Star is a small firm with one principal executive, Michael J. Borgen, who is also Sapphire Star's sole Managing Member and Chief Investment Officer. This fact leads to "key man risk," or the risk that something could happen to Michael that may negatively affect your investment in the Fund. There is no key-man insurance and Sapphire Star does not intend to obtain any key-man insurance.

The various risks briefly summarized above are not the only potential or actual risks associated with an investment in our Fund and nothing stated in the above risks should be interpreted to limit or modify Sapphire Star's fiduciary duty to you as an investor or waive any right or remedy you may have under federal or state securities laws. Federal and state securities laws impose liabilities under certain circumstances on person who act in good faith.

Before making any investment decision regarding our Fund, you must carefully review and evaluate all of the applicable Fund documents, including the Funds private offering circular, and the specific disclosures regarding risk factors and conflicts of interest.

Item 9 - Disciplinary Information

Neither Sapphire Star Capital LLC, nor Michael J. Borgen, its sole Managing Member, is or has been involved in any civil or criminal investment-related or other disclosable event.

Item 10 - Other Financial Industry Activities and Affiliations

Sapphire Star Capital, LLC is the General Partner of Sapphire Star Partners L.P. Michael J. Borgen is the sole Managing Member of Sapphire Star Capital, LLC. Sapphire Star Capital, LLC has no other affiliations.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions

Code of Ethics

Sapphire Star has adopted a Code of Ethics (the “Code”) describing our high standards of business conduct and our fiduciary duty to clients. The Code includes provisions relating to the confidentiality of your personal information, a prohibition on insider trading, guidelines surrounding gifts and business entertainment items, personal securities trading, and conflicts of interest, among other things. All supervised persons (employees) must acknowledge the terms of the Code initially upon hire as well as annually, or as amended. Furthermore, all employees must acknowledge the terms of the Code and abide by its provisions.

Employees may maintain personal securities accounts, provided any personal investing by an employee in any accounts in which the employee has a beneficial interest, is consistent with Sapphire Star’s personal trading guidelines and applicable regulatory requirements. Sapphire Star has a fiduciary duty to clients, and therefore discourages frequent trading in personal accounts.

In order to avoid a potential conflict with our Fund and limited partners, employees and members are prohibited from transacting in any securities that are also currently held or being considered for purchase for the Fund. Employees and members may participate in such transactions only in their capacity as a limited partner of the Fund.

All reportable transactions are in accordance with the reporting requirements outlined in the Code; and personal trading is continually monitored in order to reasonably prevent conflicts of interest between Sapphire Star and its investors. Sapphire Star has engaged the services of a third party compliance consultant to act as an objective reviewer of all transactions in accounts for which Michael is either a beneficiary or associated with the account through family or other beneficial ownership as described in the Code.

A copy of our Code will be provided to you upon request.

Conflicts of Interest

Conflicts Related to Performance-Based Fees (Incentive Allocation)

Conflicts relating to performance-based fees are addressed in Item 6 and are mitigated by the fact that the Fund is managed pursuant to a single investment strategy and is subject to the same incentive allocation rate. In addition, the existence of the incentive allocation may create an incentive for the General Partner to cause the Fund to make investments that are riskier or more speculative than would be the case if this allocation were not made. To address these conflicts, our policies and procedures require that investment decisions be made based on our judgment as to the best interests of our clients, without consideration of Sapphire Star’s or any employee pecuniary interests.

Conflicts Related to Brokerage

Sapphire Star has retained Convergen Prime Services, LLC to serve as the investment fund's prime broker. Convergen Prime Services LLC, clears through Pershing LLC, which acts as the Fund's Custodian. There are no known conflicts of interest between Sapphire Star and Convergen Prime Services, LLC.

Conflicts Related to Sapphire Star or its Employees Trading for Their Own Account.

Investments by Sapphire Star or its employees, for their own accounts, in securities that are also in the Fund portfolio could give the perception of interfering with our fiduciary duty of making decisions which are in the best interest of our Fund and could otherwise have a disadvantageous effect on the values, prices or trading strategies of the Fund. Our personal trading policy, described above, has been developed to address this particular conflict by prohibiting transactions in securities held in the Fund through a personal securities account. However, an exception may be granted for certain securities held in employee accounts that are also securities held in our Fund. In such a case, it may be that the securities were purchased in advance of implementing our personal trading policy or an employee may come to us with positions already established prior to their employment. As such, these securities are deemed to be "grandfathered" securities. However, in any case it will require prior written approval from the Compliance Officer (and in the case for positions held in Michael Borgen's account, review by an outside compliance consultant), prior to initiating a disposition, in order to ensure such disposition will not be disadvantageous to the Fund.

Conflicts Related to Investors/Side Letters

A side letter is an agreement with an investor in the Fund, which establishes different rights or privileges with respect to withdrawal rights, fees and/or incentive allocations. Sapphire Star may enter into such agreements with certain investors in the Fund. Any of these situations subjects Sapphire Star to potential conflicts of interest. We attempt to resolve such conflicts in light of our obligations to investors in the Fund.

Item 12 - Brokerage Practices

Sapphire Star has discretion over what securities are bought or sold and the amount to be bought or sold for the Fund, the broker or dealer to be used as well as the commission rates to be paid. In selecting brokers or dealers to execute transactions, we are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission cost.

In selecting brokers and negotiating commission rates, we take into account the financial stability and reputation of brokerage firms, and the research, brokerage or other services provided by such brokers. Sapphire Star may occasionally place transactions through its Prime Broker, Convergenx Prime Services LLC, which provides the opportunity to participate in capital introduction events sponsored by the broker or who refers investors to Sapphire Star. However, transactions with such a broker would only be done if otherwise consistent with our policy with regards to seeking “best execution.”

Sapphire Star does not participate in any directed brokerage arrangements and does not select brokers based upon investor referrals.

Soft Dollars

Subject to meeting our fiduciary responsibility to seek best execution for Fund investments, we may obtain research products or services that fall within the ‘safe harbor’ established by Section 28(e) of the Securities Exchange Act of 1934. We may purchase brokerage or research services consistent with the requirement of Section 28(e) with soft-dollar commissions generated by trades for the Fund. When using such commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.

Because the research and services received benefit us, it creates a conflict of interest for Sapphire Star when choosing how to allocate our brokerage business. In other words, we could have an incentive to execute transactions through a broker-dealer that provides valuable services or products to us and pay transaction commissions charge by that broker-dealer, rather than based on whether the Fund receives the most favorable execution for a given transaction. It also creates incentive for the Fund to engage in more securities transactions than would otherwise be optimal in order to generate soft dollars with which to acquire research products and services.

We do not exclude a broker-dealer from consideration when making a trading decision regarding the Fund simply because the broker-dealer has not provided research services or products to us, although we may not be willing to pay the same commission to that broker-dealer.

We have various controls in place designed to manage these conflicts, including:

- On a periodic basis, we review soft dollar practices to determine that commissions paid were reasonable in relation to the value of research or services received;
- We review commission rates periodically relative to peers;
- We periodically review products and services acquired with soft dollar commissions to assess their benefit to the Fund.

In addition, we address some of these conflicts by “unbundling” the commission amounts we pay to many of our executing broker-dealers. This means that we have agreed with those broker-dealers that a predetermined amount (e.g., 1.5 cents) of commission will represent execution services provided by the broker-dealer and the remainder of the commission (e.g., 1.5 cents) will be allocated to soft dollars. Pursuant to commission sharing agreements we have with those broker-dealers, each broker-dealer places the amount of commissions allocated to soft dollars in an account for our benefit. We then periodically direct the applicable broker-dealer to pay itself or third parties out of the account for products or research created or developed by it or those third parties.

In certain situations, the Fund may pay a brokerage commission higher than another broker-dealer might have charged for effecting the same transaction. We would do this if we determine in good faith that the commission is reasonable in relation to the value of the brokerage and/or research services provided by the broker-dealer, viewed in terms of either the particular transaction or our overall responsibilities with respect to the Fund.

If we receive a product or service that has a research or brokerage use and a non-research or non-brokerage use, we will use our judgment to make a reasonable allocation of the cost of the product or service according to its use (i.e., the component that relates to research or brokerage use vs. the component that relates to non-research or non-brokerage services). We would then pay the portion allocable to research or brokerage using soft dollars, while paying the portion allocable to non-research or non-brokerage portion using hard dollars paid by us. In making an allocation, we will consider users of the product or service and usage, including relative importance, costs of use, frequency of use, and available substitutes.

Services we may acquire with soft dollars include research reports, counsel on market analysis and execution strategies, discussions with research analysts, research related to the market for securities, including pre- and post-trade analytics, meetings with corporate executives to obtain verbal reports, seminars or conferences, software that provides analysis of portfolios, corporate governance research and market data, company financials and economic data. We allocate soft dollars to a broker-dealer to receive the broker-dealer’s proprietary research (i.e., researched created or developed by the broker-dealer to which we are allocating soft dollars), and we also use soft dollars generated with a broker-dealer to pay for research created or developed by a third-party. In the case of a third-party, the broker-dealer may provide us with such third-party research or may pay such third-party directly and instruct the third-party to deliver the research to us.

We might also receive brokerage-specific services, including communication services related to execution, clearing and settlement of transactions and other functions incidental to effecting securities transactions, post-trade matching, electronic communication of allocations routing and settlement instructions, trading software to route orders to market centers or brokers and direct market access.

Item 13 - Review of Accounts

Reviews

Michael J. Borgen, the Chief Investment Officer, continuously reviews the sub-advisory accounts and the Fund to ensure all investments are consistent with the investment objectives, philosophy, strategy and methodologies that we have described to investors in our offering documents, and to ensure that he is comfortable with the general levels of investment, position concentration, and other measures of risk and potential reward in the portfolio.

Reporting

On a quarterly basis, Sapphire Star prepares and delivers to each investor a quarterly performance report as well as a quarterly account statement.

After fees are deducted from a Limited Partner's account, Sapphire Star prepares and delivers to each Limited Partner, an invoice, which includes (i) the formula used to calculate the fee, (ii) the amount of assets under management that the fee is based on, and (iii) the time period covered by the fee.

On an annual basis, each investor also receives a copy of the Fund's audited financial statements prepared by our independent auditors and includes tax-reporting information. Sapphire Star also provides additional information as requested, provided that such requests are deemed reasonable in content and scope and that we are prepared to supply the same level of information to other investors who may ask for similar information.

Item 14 - Client Referrals and Other Compensation

Sapphire Star does not currently have any arrangements in place to compensate third parties for client referrals.

Item 15 - Custody

Sapphire Star does not maintain physical possession of client cash and/or securities. Physical location aside, however, we are deemed to have custody of client funds and securities under the Securities Act as a result of the authority of Sapphire Star, to cause payments of management fees and other Fund expenses to be made from the Fund, and the overall access we have to the cash/cash equivalents and securities of the Fund.

Consistent with the requirements under the Securities Act, the assets of Investors are held in accounts maintained with Wells Fargo, TD Ameritrade Clearing, Inc., Northbrook Bank and Trust Company and Convergen Prime Services, who serve as our current custodians for the Fund. All are a “qualified custodian” within the meaning of the Securities Act. Our custodians hold all Fund assets in a separate account.

In addition, the annual financial statements of the Fund are prepared in accordance with GAAP, audited by an independent accounting firm registered with the Public Company Accounting Oversight Board and distributed to all Limited Partners within 120 days of the Funds fiscal year end.

Item 16 - Investment Discretion

Sapphire Star has non-discretionary authority over all sub-advisory accounts that it manages.

Sapphire Star has full discretionary authority over all assets it manages for the Fund pursuant to an investment management or limited partnership agreement and consistent with the investment objectives and strategy described in the Fund's offering documents. Sapphire Star does not provide advisory services directly to investors in the Fund.

Item 17 - Voting Client Securities

Sapphire Star has the authority to vote securities held in the Fund, which we exercise in accordance with our written proxy voting policies and procedure. Our policy defines procedures for voting securities for the benefit of, and in the best interest of, the Fund. The objective of voting a security in each case under our policy is to seek to enhance the value of the security, or to reduce potential for a decline in the security's value. Our policy does not prescribe specific voting requirements or specific voting considerations. Instead, it provides procedures for applying the informed expertise and judgment of the Chief Investment Officer on a timely basis.

We believe that an important consideration in the framing of a proxy voting policy is the need to avoid unduly diverting resources from our primary responsibilities to add value to our clients' investments through portfolio management and client service. Sapphire Star's policy has been prepared on this basis. We do not consider it feasible or desirable to prescribe, in advance, comprehensive guidelines as to how we will exercise proxy voting authority in all circumstances. The primary aim of our approach to corporate governance issues is to encourage a culture of performance among the companies in which we manage investments in order to add value to our portfolio, rather than one of mere conformance with a prescriptive set of rules and constraints. In our proxy voting policy, we describe some factors we are likely to consider when approaching votes on matters where some general observations may be drawn, but the facts and circumstances of the issuer at the time of each vote ultimately guides our voting decision.

Sapphire Star will use reasonable efforts to determine whether a potential conflict may exist with respect to voting proxies. We are sensitive to conflicts of interest that may arise in the proxy decision-making process, and we have identified potential conflicts as part of our policies and procedures. Materiality determinations will be based on an assessment of the particular facts and circumstances and in consultation with outside legal counsel, as necessary. If we determine that a material conflict of interest exists between the interests of Sapphire Star and the interest of the Fund with respect to a particular vote, we will retain a proxy voting service, or turn to another independent third party, to determine the manner in which such vote should be cast.

A copy of our Proxy Voting Policy and Procedures, as well as information related to how proxies were voted, may be obtained by contacting us via phone or email.

Item 18 - Financial Information

As a registered investment adviser, we are required to provide you with certain financial information or disclosures about our financial condition. Such information is available to you upon request.

Sapphire Star has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Sapphire Star does not collect any fees, 6 or more months in advance.