



# MONTROCK48

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**March 28, 2018**

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**This brochure provides information about the qualifications and business practices of Montrock48 Capital LP (the “Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at 212-899-9860. This information has not been approved or verified by the SEC or by any state securities authority.**

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

## **Item 2. Material Changes**

This document serves as the Adviser's Brochure and is dated March 28, 2018. Current and prospective clients and investors should carefully review the disclosure contained herein. The following summary discloses material changes made to this brochure since Adviser's Form ADV Part 2A was filed in March 2017.

- Item 4 has been updated to note that the Adviser now provides investment advice to a separately managed account.
- Item 5 has been updated to include fees and expenses charged to the SMA.
- Item 6 has been updated to include disclosures relating to the side by side management of similar accounts.
- Item 7 has been updated to note the minimum initial investments required by SMA and what type of client the SMA is.

Please see the specific sections for more details. In addition to the material changes made to this brochure and brochure supplements to reflect the matters described above, the Adviser has made changes to reflect general updates.

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#### **Item 4. Advisory Business**

The Adviser is an investment adviser with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser on or about July 1, 2016. Richard Herman and Louis Jaffe are the principal owners of the Adviser.

The Adviser provides investment advisory services on a discretionary basis to its clients, which consist of pooled investment vehicles intended for sophisticated investors and institutional investors, and include Montrock48 Partners LP (the "Onshore Fund") and Montrock48 Offshore Ltd. (the "Offshore Fund"), each of which invests substantially all of its assets in Montrock48 Master Fund LP (the "Master Fund" and collectively with the Onshore Fund and the Offshore Fund, the "Funds"). The Adviser also provides investment advisory services on a discretionary basis to a separately managed account ("SMA") with investment objectives that are similar to those of the Funds and whose assets are generally invested *pari passu* to the Funds. As used herein, the term "Advisory Clients" refer to the Funds and the SMA.

The Adviser provides advice to Advisory Clients based on specific investment objectives and strategies described in the offering memorandum of a Fund or investment management agreement of a separately managed account. The Adviser does not tailor advisory services to the individual needs of investors to the Funds, and such investors may not impose restrictions on investing in certain securities and other financial instruments or certain types of securities and other financial instruments.

As of December 31, 2017, the Adviser managed approximately \$54 million in regulatory assets on a discretionary basis on behalf of the Advisory Clients.

#### **Item 5. Fees and Compensation**

*Asset-Based Compensation.* The Funds pay the Adviser an asset-based investment management fee each quarter in advance in an amount ranging from 1.5% to 1.75% per annum based on the value of the net assets of the respective Fund on the first day of the quarter (the "Management Fee"). If an investor invests during a quarter or makes an additional subscription during a quarter, the Management Fee is charged as of the effective date of such subscription based on the value of the assets as of the applicable date and is prorated for the number of days remaining in the quarter. The Adviser may waive or modify the Management Fee for investors that are members, employees or affiliates of the Adviser or Montrock48 GP LLC, an affiliate of the Adviser (the "General Partner"), relatives of such persons, and for certain large or strategic investors. The SMA should consult with its investment management agreement with the Adviser for details on the calculation of the management fee.

*Performance-Based Compensation.* The Adviser (or the General Partner) is entitled to receive annual performance-based compensation (the "Incentive Allocation") from the Funds, which is compensation that is based on a share of net capital appreciation of the assets of a Fund. The Incentive Allocation rate ranges from 15% to 20% and is subject to a loss carryforward provision. The Adviser (or the General Partner) may waive or modify the Incentive Allocation for investors that are members, employees or affiliates of the Adviser or the General Partner, relatives of such persons, and for certain large or strategic investors. The Adviser will receive Incentive Allocation from the SMA. The SMA should consult with its investment management agreement with the Adviser for details on the calculation of the Incentive Allocation.

The Management Fee for the Funds are paid pursuant to instructions to the Master Fund's custodian to deduct it from the Master Fund's account. These fees will not be negotiable.

The SMA receives an invoice for fees from Adviser on a quarterly basis.

In addition to bearing the Management Fee and Incentive Allocation, if any, the Funds are subject to other investment expenses such as legal, compliance, administrator (including middle and back office fees and expenses), audit and accounting expenses (including third party accounting services); shareholder proxy

voting services; organizational expenses; investment expenses such as commissions, research fees and expenses (including Bloomberg and similar subscriptions and data services and research related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; bank service fees; Fund-related insurance costs (including D&O and E&O insurance for the Adviser, the General Partner and outside directorship and Review Committee liability); independent Master Fund Review Committee members' fees and expenses; expenses of regulatory compliance (including compliance with AIFMD), filings and reporting (including but not limited to Section 13, Section 16 and Form PF filings); pricing service fees; portfolio valuation expenses (including data fees and third-party valuation agents); Directors' fees and expenses; and any other expenses related to the purchase, sale or transmittal of Fund assets. In addition to the fees charged by the Adviser, the SMA may be responsible for additional expenses, such as brokerage fees, commissions, mark-ups and mark-downs, custody fees, and fees and expenses charged by unaffiliated custodians.

The allocation of expenses by the Adviser between it and any Advisory Client and among Advisory Clients represents a conflict of interest for the Adviser. The Adviser has adopted an expense allocation policy that is designed to address this conflict. The Adviser will allocate expenses to each Advisory Client in accordance with the Advisory Client's arrangements with the Adviser (including applicable Advisory Client disclosures). The Adviser seeks to allocate shared expenses for products and services benefitting the Adviser and the Advisory Client and not covered in the Advisory Client's arrangements in a fair and reasonable manner. The Adviser allocates common Advisory Client expenses among multiple Advisory Client pro rata based on gross assets under management as of the beginning of each semi-annual period in which the expenses are paid. The Adviser may deviate from this standard allocation method if it determines that an expense disproportionately benefits a particular Advisory Client or group of Advisory Clients.

Advisory Clients pay the Adviser's fees in advance. Pre-paid fees charged to the SMA and/or Investors will be refunded based on the number of days remaining in the quarter if a withdrawal or redemption (as applicable) is made before the end of a quarter. More detailed information regarding the fees and expenses paid by Funds may be found in the governing documents of each Fund or in the SMA's investment management agreement

#### **Item 6. Performance-Based Fees and Side-by-Side Management**

As noted above in Item 5, the General Partner, an affiliate of the Adviser, is entitled to receive performance-based compensation by the Funds. The Adviser is entitled to receive performance-based compensation by the SMA. In addition, the Adviser's investment personnel is typically compensated on a basis that includes a performance-based component. Such performance-based compensation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation arrangements. Since the Funds and the SMA are managed nearly *pari passu*, the Adviser is not incentivized to allocate investment opportunities to one Client over the other. Any exceptions to *pari passu* allocation would be due to the restrictions and limits set forth by either the Funds or the SMA.

#### **Item 7. Types of Clients**

With respect to the Funds, any initial and additional subscription minimums are disclosed in the offering memorandum for the applicable Fund. Generally the minimum investment in the Onshore Fund is \$2,000,000 (subject to waiver at the discretion of the Onshore Fund's general partner) and in the Offshore Fund is \$5,000,000 (subject to waiver at the discretion of the Offshore Fund's board of directors). Currently the Adviser only has one separately managed account and the client is a family office. The minimum investment for separately managed accounts is \$50,000,000. The minimum investment amounts generally do not apply to the Adviser's affiliates, employees, members of their immediate family, and their lineal descendants, trusts, or other entities established for their benefit and family or other foundations established by such persons

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

**Methods of Analysis and Investment Strategies.** The Adviser aims to generate high risk-adjusted absolute-returns with minimal long-term correlation to returns of traditional asset classes. The Adviser seeks investment opportunities with a thorough understanding of global economic environments, market structure dynamics and investor positioning, while using a wide variety of financial instruments across G-20 economies, including bonds, derivatives, currencies, and equities.

The Adviser employs the following investment strategies:

*Credit*<sup>\*</sup>. The Adviser engages in a long/short credit strategy. *Client* accounts generally invest in credit-related assets across all levels of the capital structure, including, investments in distressed debt securities and other financial instruments, high yield and investment grade loans and bonds, structured credit and special situations.

*Fundamental Value*. The Adviser engages in a fundamental value investment strategy wherein the Adviser attempts to invest in asset-oriented securities the Adviser believes are undervalued by the market.

*Global Macro*. The Adviser engages in a global macro investing strategy wherein the Adviser attempt to anticipate global macroeconomic events using discretionary selection.

*Hedging*. The Adviser utilizes a variety of financial instruments such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts for profit and/or risk management purposes.

*Leverage*. While it is generally not expected to be a significant part of the Adviser's strategy, the Adviser's investment program may utilize leverage, which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for marketable securities investments.

*Option Trading*. The Adviser engages in various option trading investment strategies. Options are investments whose ultimate value is determined from the value of the underlying investment. The Adviser engages in a wide variety of call and put option transactions, and on a wide variety of underlying securities.

*Relative Value*. The Adviser pursues relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued.

*Short Selling*. The Adviser engages in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales (i) as a form of hedging to offset potential declines in long positions in similar securities, (ii) in order to maintain flexibility and, (iii) for profit.

*Market Structure*<sup>\*</sup>. The Adviser looks for opportunities to profit from market structure change, especially with respect to accounting and regulatory change in the investment banking industry. These opportunities may exist where the Adviser can trade or hold instruments more efficiently than investment banks.

These methods, strategies and investments involve risk of loss to Advisory Clients, and Advisory Clients must be prepared to bear the loss of their entire investment.

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<sup>\*</sup> The Adviser does not employ credit nor market structure strategies for the SMA.

### ***Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies***

The following summary identifies the material risks related to the Adviser's significant investment strategies and should be carefully evaluated before making an investment with the Adviser; however, the following does not intend to identify all possible risks of an investment with the Adviser or provide a full description of the identified risks. Fund investors should refer to their Fund's governing documents for a complete understanding of the Adviser's investment strategies and methods of analysis. The information contained herein is a summary only and is qualified in its entirety by such documents.

*Commodities.* Commodity investments are affected by business, financial market or legal uncertainties. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on its commodity investments. Prices of commodity investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Adviser's portfolio and the value of its investments. In addition, the value of the Adviser's portfolio may fluctuate as the general level of interest rates fluctuates.

*Fixed Income.* Certain fixed income or other debt securities may be unrated by a recognized credit-rating agency or below investment grade, which are subject to greater risk of loss of principal and interest than higher-rated debt securities. Accordingly, these securities tend to be more sensitive to economic conditions and tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which primarily react to fluctuations in the general level of interest rates. Issuers of lower-rated debt securities are often highly-leveraged and may not have access to more traditional methods of financing. Furthermore, trading in these types of securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. Moreover, it is likely that an economic downturn could affect the ability of the issuers to repay principal and pay interest thereon resulting in a high potential of default.

*Swaps.* Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than a year. Whether the Adviser's use of swap agreements, if any, will be successful in furthering its investment objective will depend on the Adviser's ability to correctly predict whether certain types of investments are likely to produce greater returns than other investments. The Funds will bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. It is possible that developments in the swaps market, including potential government regulation, could adversely affect a Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements.

*Hedging.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if the Adviser did not engage in any such hedging transactions.

*Interest Rate Risks.* Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities. The Adviser may attempt to minimize exposure to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Adviser will be successful in fully mitigating the impact of interest rate changes.

*Lack of Diversification.* Advisory Client accounts may not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, Advisory Client portfolios may be subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments, geographic areas or sectors.

*Leverage.* While it is not anticipated that the Advisory Clients will utilize significant leverage, performance may be more volatile if an Advisory Client's account employs leverage.

*Relative Value Risk.* In the event that the perceived mispricings underlying the Adviser's relative value trading positions were to fail to converge toward, or were to diverge further from, relationships expected by the Adviser, Advisory Client accounts may incur a loss.

*Short Selling Risk.* The Adviser's investment program includes short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

***Risks Associated with Types of Securities that are Primarily Recommended (Including Significant or Unusual Risks)***

*Derivatives.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the Advisory Client or the Adviser. Further, transactions in derivative instruments may not be undertaken on recognized exchanges, and will expose the Advisory Client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Security Futures and Options.* In connection with the use of futures contracts and options, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in the Advisory Client account. In addition, the Adviser's investments in security futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.

*Commodity Futures and Options.* Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a pooled investment vehicle engaging in commodity futures trading. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to such a pooled investment vehicle. Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted, and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

*Non-U.S. Securities.* Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.



*Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities subject an Advisory Client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. The Adviser may also invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Most fixed income instruments trade in over-the-counter transactions and lack the benefit of transparent exchange pricing. Bid and asks for these instruments are generally wider than equity securities, and trading is less frequent. These factors may cause distortions and/or volatility in the prices of fixed income-related instruments. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

*Asset-Backed Securities.* Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities are subject to additional risks in that, unlike mortgage-backed securities, asset-backed securities generally do not have the benefit of a security interest in the related collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. In addition, asset-backed securities experience credit risk. There is also the possibility that recoveries on repossessed collateral may not be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

*Emerging Markets.* There are greater risks associated with investments in securities of issuers located in less developed countries than investments in securities of issuers located in the U.S. and other developed markets. Political risk for many developing countries is a significant factor. During certain social and political circumstances, governments may be involved in policies of expropriation, confiscatory taxation, nationalization, intervention in the securities market and trade settlement, and imposition of foreign investment restrictions and exchange controls. In comparison to more developed markets, trading volumes in emerging markets may be lower, which can result in a lack of liquidity and greater price volatility.

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short term as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

## **Item 9. Disciplinary Information**

The Adviser and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

The Adviser is registered with the U.S. Commodity Futures Trading Commission as a commodity pool operator and is a member of the National Futures Association. In connection with the Adviser's registration as a commodity pool operator, certain of the Adviser's management persons are registered associated persons and/or principals of the Adviser.

Each of the Funds for which the Adviser or its related person serve as general partner or investment manager have and may continue to enter into agreements, or “side letters,” with certain prospective or existing limited partners or shareholders whereby such limited partners or shareholders, including such persons that may be affiliated with the Adviser or its related persons, may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the Fund. For example, such terms and conditions may provide for special rights to make future investments in a Fund, other investment vehicles or managed accounts; special redemption rights, including those relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the limited partner or shareholder and/or other terms; rights to receive reports from a Fund on a more frequent basis or that include information not provided to other limited partners or shareholders (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by a Fund and such limited partners or shareholders. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the limited partner’s or shareholder’s investment in a Fund or affiliated investment entity, an agreement by a limited partner or shareholder to maintain such investment in a Fund for a significant period of time, or other similar commitment by a limited partner or shareholder to a Fund.

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

The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser and its supervised persons to put the interests of the Adviser’s Advisory Clients before their own interests and to act honestly and fairly in all respects in their dealings with Advisory Clients. In addition to compliance with the Adviser’s policies and procedures, all of the Adviser’s personnel are required to comply with applicable federal securities laws. Advisory Clients or prospective Advisory Clients may obtain a copy of the Code by contacting Timothy Shan (Chief Compliance Officer) by email at [tshan@montrock48.com](mailto:tshan@montrock48.com), or by telephone at 212-899-9860. See below for further provisions of the Code as they relate to the reporting of securities transactions and holdings by the Adviser’s supervised persons.

The Adviser and its supervised persons may give and/or receive gifts, services or other items to/from any person or entity that does business with or potentially could conduct business with or on behalf of the Adviser. The Adviser has adopted policies and procedures governing gifts and business entertainment, which includes disclosure of gifts and business entertainment in excess of certain de minimis thresholds and pre-clearance by the Chief Compliance Officer prior to giving/receiving gifts above a certain de minimis threshold.

The Adviser, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of Advisory Clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is an Advisory Client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to its Advisory Clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the Advisory Client or using such information for the Advisory Client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the Advisory Client for not disclosing such information to the Advisory Client (or the fact that the Adviser possesses such information), or not using such information for the Advisory Client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser requires its employees to report all transactions in reportable securities in their personal accounts to the Chief Compliance Officer. Further, the Adviser requires its employees to preclear all transactions in initial public offerings and private placements with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of the Advisory Clients. In addition, the Adviser’s Code prohibits the Adviser or its supervised persons

from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the Chief Compliance Officer. All of the Adviser's employees are required to disclose their securities transactions on a quarterly basis. The Adviser's employees are required to disclose the holdings in their personal accounts upon commencement of employment with the Adviser and on an annual basis thereafter. Alternatively, employees provide broker statements and confirmations of each transaction in which they engage and quarterly certification of such transactions. Trading in the personal accounts of the Adviser's supervised persons is reviewed by the Chief Compliance Officer and compared with transactions for Advisory Client accounts.

#### **Item 12. Brokerage Practices**

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to, reputation, financial strength and stability, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, research (including economic forecasts, fundamental and technical advice on securities, valuation advice on market analysis); custodial and other services provided for the enhancement of the Adviser's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or a series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus an Advisory Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Compliance Officer evaluates the broker-dealers used by the Adviser to execute Advisory Client trades using the foregoing factors.

#### **Item 13. Review of Accounts**

Each Advisory Client account is reviewed by the Chief Compliance Officer and the portfolio managers of the Adviser on an ongoing basis to determine whether securities positions should be maintained in light of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Advisory Client account.

Investors in the Funds receive reports from the Advisor pursuant to the terms of each Advisory Client's offering memorandum or as otherwise described in the offering document of the Fund.

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

The Adviser does not utilize or compensate, directly or indirectly, any person who is not a supervised person to solicit client referrals.

From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser. In addition, such brokers may recommend private funds managed by the Adviser to potential investors. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution.

## **Item 15. Custody**

The Adviser is deemed to have custody of the Funds' funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a Funds' account or otherwise withdrawing funds from a client's account. Account statements related to the Funds are sent by qualified custodians to Adviser. The Adviser is not deemed to have custody of the SMA since it does not have authority to deducting advisory fees from the SMA, nor does the Adviser act as a trustee or have full power of attorney over the SMA.

The Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year. All Client assets are held in custody by unaffiliated broker-dealers or banks acting in the capacity of "qualified custodians" pursuant to the Advisers Act.

## **Item 16. Investment Discretion**

The Adviser will provide investment advisory services on a discretionary basis to Advisory Clients. Prior to assuming full discretion in managing an Advisory Client's assets, the Adviser will enter into an investment management agreement or other agreement that will set forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary Advisory Client, the Adviser will have the authority to determine (i) the securities to be purchased and sold for the Advisory Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the Advisory Client account. Because of the differences in Advisory Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Advisory Clients in invested positions and securities held. The Adviser may consider the following factors, among others, in allocating securities among clients: (i) an Advisory Client's investment objectives and strategies; (ii) risk profiles; (iii) tax status and restrictions placed on an Advisory Client's portfolio by the Advisory Client or by applicable law; (iv) size of the Advisory Client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's policy to allocate investment opportunities to eligible Advisory Client accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to Advisory Client accounts in varying amounts. Even Advisory Client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors occur, the Adviser's error correction procedure is to ensure that Advisory Clients are treated fairly. The Adviser has discretion to resolve a particular error in any manner that it deems appropriate and consistent with the above stated policy. In the event that an Advisory Client account incurs a trade error as a result of the Adviser's gross negligence, willful misconduct, fraud or violation of the standard of care that is applicable to the Advisory Client account, the Adviser will reimburse the Advisory Client. Trade errors that do not result from the Adviser's gross negligence, willful misconduct, fraud or other standard of care applicable to the Advisory Client account are borne by the Advisory Client account.

#### **Item 17. Voting Client Securities**

To the extent the Adviser has been delegated proxy voting authority on behalf of its Advisory Clients, the Adviser complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to Advisory Client securities, such proxies are voted in the best interests of its Advisory Client. The Adviser will determine whether a proposal is in the best interests of the Advisory Client and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

Advisory Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted an Advisory Client's proxies by contacting Timothy Shan, the Chief Compliance Officer of the Adviser, whose telephone number is 212-899-9860.

#### **Item 18. Financial Information**

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

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