

## Form ADV Part II



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Airacobra Capital Management, LLC (“**Airacobra**” or the “**Adviser**”) is an investment adviser registered with the United States Securities and Exchange Commission (“**SEC**”). Being registered as an investment adviser does not imply a certain level of skill or training.

This Form ADV Part 2A, also known as the “brochure”, provides information about the qualifications and business practices of Airacobra. If you have any questions about the contents of this brochure, please contact us at 214.206.6367. The information in this brochure has not been approved or verified by the SEC or any state securities authority.

Additional information is available on the SEC’s website at *www.adviserinfo.sec.gov*.

*This brochure does not constitute an offer, solicitation, or recommendation to sell or an offer to buy any securities or investment products. Such an offer may only be made to eligible persons by means of delivery of offering memoranda and/or other similar materials that contain a description of the material terms related to such investment.*

## **Item 2: Material Changes**

This is Airacobra's initial Form ADV Part II filing.

On July 28, 2010 the SEC published "Amendments to Form ADV" amending the disclosure document Airacobra must provide to clients as required by rules promulgated by the SEC and state securities boards (taken together "**Regulatory Agencies**").

In the future, this Item 2 will discuss specific material changes to the brochure and provide Fund Investors with a summary of such changes. Airacobra will reference the date of our last update to the brochure.

Pursuant to Regulatory Agencies' rules, Airacobra will ensure Fund Investors receive a summary of any material changes to this and subsequent brochures within 120 days of the close of Airacobra's fiscal year.

Airacobra will provide Fund Investors with a new brochure, as necessary, based on changes or new information, at any time, without charge.

Airacobra's brochure may be requested by contacting Airacobra's Chief Compliance Officer at 214.206.6367 or via email at *nicholas.stone@airacobracapital.com*.

Additional information about Airacobra is available via the SEC's website at *www.adviserinfo.sec.gov*. The SEC's website provides information about persons affiliated with Airacobra who are registered, or are required to be registered, as investment adviser representatives of Airacobra.

This brochure should be reviewed in its entirety.

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#### **Item 4: Advisory Business**

- A. Airacobra Capital Management, LLC, a Delaware limited liability company (“**Airacobra**” or the “**Adviser**”), was formed on December 14, 2015. The sole member of Airacobra is Cubbage Hill Holdings, LLC, a Delaware limited liability company (“**Cubbage**”) formed on December 14, 2015. Cubbage, in turn, is solely owned by Nicholas R. Stone, CFA. Airacobra is headquartered in Texas.
- B. Airacobra provides investment management and advisory services to private investment vehicles, structured as either limited partnerships or limited liability companies (individually, a “**Fund**” and collectively, the “**Funds**”). Investors in the Funds are typically institutions, fund-of-funds, family offices, and high net worth individuals. The investment mandates and restrictions of the Funds are described in their respective offering documents. Investors in the Funds are not permitted to impose investment restrictions on the Funds.

Airacobra advises on investment strategies involving, but not limited to: (i) equity securities; (ii) corporate debt securities and syndicated bank debt; (iii) sovereign debt securities including their respective agencies; (iv) futures, options, and other derivative instruments; (v) distressed securities; (vi) special situations; and (viii) private placement of equity and debt interests. In general, Airacobra aims to construct Funds designed to provide above-market risk-adjusted returns within a Fund’s risk tolerance levels and stated mandates.

- C. Airacobra serves as the general partner to The Airacobra Credit Strategies Fund, L.P., a Delaware limited partnership, (“**Credit Strategies**”) and The DTOM Fund, L.P., a Delaware limited partnership, (“**DTOM**”). Airacobra tailors its advisory services to the specific needs of the Funds, taking into account the particular strategies of the Funds as well as the legal and tax implications of making certain investments. The following provides a brief description of the Funds.

##### **The Airacobra Credit Strategies Fund, L.P.**

Airacobra is the general partner and investment manager of Credit Strategies. The principle purpose is to make credit and credit related long/short investments in domestic public companies and sovereign debt including their respective agencies.

Credit Strategies may participate in private placements. In conjunction with activities, Airacobra will attempt to partake in the senior portion of the corporation’s capital structure while seeking to obtain Board of Director or other senior management representation.

##### **The DTOM Fund, L.P.**

Airacobra is the general partner and investment manager of DTOM. The principle purpose is to make long/short investments in domestic companies across the entire capital structure with focus on American Values and Tenants incorporating: (i) American manufacturing and labor; (ii) innovation and invention; and (iii) rights of the individual with a free market philosophy.

- D. Airacobra does not participate in wrap fee programs.
- E. As of July 15, 2016 Airacobra had approximately \$0 under management.

## **Item 5: Fees and Compensation**

- A. Airacobra is compensated based on a percentage of assets under management (“AUM”) and a performance based allocation/distribution. The following is illustrative of the fees investors in the Funds can typically expect. Investors in the Funds should consult the offering documents of the respective Fund for a detailed description of fees and expenses applicable to their investment. Airacobra has waived or negotiated lower fees or expenses for personnel and their family members.

### **Credit Strategies**

Investors in Credit Strategies are subject to the following fee schedule:

Quarterly Management Fee:	0.375% (1.5% per annum)
Annual Performance Allocation:	20% of net profits; subject to a high water mark

### **DTOM**

Investors in DTOM are subject to the following fee schedule:

Quarterly Management Fee:	0.5% (2.0% per annum)
Annual Performance Allocation:	20% of net profits; subject to a high water mark

- B. Airacobra does not bill Fund Investors for management fees or performance allocations/distributions. Management fees are deducted from the assets of the applicable Fund on a quarterly basis, generally in arrears at the beginning of the following quarter. Each Fund accordingly charges its applicable management fee to the capital accounts of each investor in such respective Fund. Similarly, the performance allocation/distribution for the Funds are accordingly charged to the capital accounts of each investor in such respective Fund, generally at the end of each fiscal year. In respect to withdrawals or redemptions that occur during an interim period, if accepted by the Fund at its discretion, instead at the end of a quarter, management fees and, if applicable, performance allocations/distributions will be calculated on a pro-rata basis as to the date of said withdrawal or redemption is accepted by Airacobra.
- C. Airacobra’s Funds will generally bear the costs associated with the management of the Funds, including, but not limited to: (i) transaction commissions, exchange fees, interest expenses, withholding and other taxes, custodial fees, clearing fees, and account fees; (ii) securities lending and repurchase and reverse repurchase fees and expenses; (iii) interest on margin accounts and other indebtedness; (iv) regulatory cost and expenses; (v) expenses related to third-party research, publications, data and data service including real-time pricing and market information, historical pricing, and other data; (vi) outside professional fees and expenses, including those of attorneys, accountants, consultants, administrators, and independent advisors; (vii) travel expenses incurred in connection with evaluating, negotiating, managing, or disposing of investments; and (viii) indemnification payments, insurance costs, and extraordinary expenses (including, but not limited to, litigation expenses). Please refer to Item

12: Brokerage Practices for a more complete discussion relating to brokerage fees and expenses.

- D. As noted above in Item 5B, all management fees are generally payable in arrears. In respect to withdrawals or redemptions that occur during an interim period, if accepted by the Fund at its discretion, instead of at the end of a quarter, management fees and, if applicable, performance allocations/distributions will be calculated on a pro-rata basis as to the date said withdrawal or redemption is accepted by the Fund. If the Fund issues a distribution during an interim period as opposed to a distribution at the end of a period, management fees and, if applicable, performance allocations/distributions will be calculated on a pro-rata basis as to the date of distribution by the Fund.
- E. Airacobra does not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. However, Airacobra personnel dually registered with Stone & Company, LLC. (“**Stone**”), a Delaware corporation pending FINRA registration whose sole member is Cubbage, may be eligible to receive compensation for the recommendation of Airacobra’s Funds and other nonaffiliated registered investment advisers through Stone’s permitted FINRA activities. The affiliation between Airacobra and Stone will be disclosed, in writing, to customers of Stone and Airacobra prior to a transaction. Compensation for such services received by Stone will be the result of an arm’s length contract between Stone, dually register personnel of Airacobra, and Airacobra. Please refer to Item 10: Other Financial Industry Activities and Affiliation.

Airacobra’s Funds may hold significant investments, individually or collectively, in public securities or private placements. Accordingly, Airacobra may have the right to appoint a board member, officer, or other management representation for such company. Airacobra personnel are permitted to retain all compensation received for such positions except contrary to the governing documents of the respective Fund, in which case the proportion of such compensation will be remitted to that respective Fund.

Airacobra has established procedures designed to address potential conflicts of interest such board member, officer, or other management representation might present, including written authorization from the Chief Compliance Officer and Managing Member of Airacobra prior to serving in such position. If the individual is a Managing Member of Airacobra, written authorization will be required from the Chief Compliance Officer and Airacobra’s Board of Directors. Please refer to Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.

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

Airacobra receives management fees based on AUM and, if applicable, a performance based allocation/disbursement from the Funds. Hence, Airacobra does not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients but not from other clients.

## **Item 7: Types of Clients**

Airacobra provides investment management and advisory services to the Funds.

Investors in the Funds are typically institutions, fund-of-funds, family offices, and high net worth individuals. The minimum initial capital contribution for both Credit Strategies and DTOM is currently \$1 million; however, Airacobra, at its discretion, may grant exceptions to these minimums.

Investors in the Funds must be a: (i) “qualified purchaser” as defined in the Investment Company Act of 1940 (the “**Investment Company Act**”); (ii) “qualified client” as defined under the Investment Advisors Act of 1940 (the “**Advisors Act**”); or (iii) a “qualified institutional buyer” as defined by the SEC.

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

Nicholas R. Stone is responsible for the implementation of the investment process and the Funds construction. Mr. Stone regularly consults with Airacobra’s senior investment professionals (collectively, the “**Investment Team**”), but is ultimately responsible for the investment decisions made on behalf of the Funds. While each member of the Investment Team has authority to enter transactions within certain prescribed limits, all activity is reviewed daily by Mr. Stone.

- A. The following investment philosophy statement describes the methods of analysis and investment strategies utilized in formulating investment advice and managing assets. Investing in securities and other financial instruments involves a risk of loss and Fund Investors should be prepared to bear such risk of loss. Airacobra does not offer its Fund Investors any guaranteed level of risk, return, or the original capital value of any investment will be maintained.

### **Investment Philosophy**

Airacobra’s investment philosophy is based on traditional, fundamental financial analysis incorporating the use of strategic and tactical opportunities to construct Funds within their respective risk/return profile and investment mandate. Airacobra’s self-discipline is further enforced by the ongoing monitoring of individual issuers by the Investment Team and a quarterly, overall Fund(s) review by the Board of Directors.

The following tenets guide our investment approach:

1. Disciplined top-down/bottom-up fundamental analytics to project optimized Fund allocation reflecting individual companies, sectors, and general market conditions to invest in various securities, syndicated bank debt, and private placements. Other sources of information include, but are not limited to, obtaining and reviewing due diligence packages prepared by issuers, underwriters, meeting with the management of issuers, and the use of technical analysis in regards to price and volume momentum.
2. Invest in opportunities that highlight value oriented discrepancies between internally generated intrinsic values and market values; identifying potential catalysts for the convergence of intrinsic and market value.
3. Individual security selection is important but may not always play a dominant factor in determining portfolio performance. Airacobra invests in public and private

companies for their business prospects and in sovereign debt and respective agencies for their overall respective economic environment having confidence this will ultimately be reflected in their price or valuation. Airacobra invests for the Funds and for the overall Airacobra business model with a long-term approach.

4. Moderate portfolio diversification; believing excessive diversification does not necessarily add value nor provide risk reduction. Airacobra maintains concentration weightings of individual investments and sector/industry classifications in an attempt to achieve above market risk-adjusted rates of return within a Fund's risk tolerances and stated mandates. Concentration of exposures to certain industries or asset classes are closely monitored by the Investment Team.
  5. Capital markets can be volatile, especially on a short term basis, due to irrational expectations and human behavior. Even though Airacobra attempts to construct above average risk-adjusted returns for the Funds, there is no guarantee Airacobra will provide above average market risk-adjusted returns.
  6. Our philosophy reflects: (i) Credit leads equity; (ii) Credit quality improves or deteriorates, it is never constant; (iii) the totality of individual data points and trends drive Airacobra's decisions; and (iv) market correlations and trends always change, never constant.
- B. Below is a discussion of the material risks involved with the investment strategies and methods of analysis utilized by Airacobra.

**Market Risk.** The value of an investment may change due to general market conditions not specifically related to a particular issuer, such as real or perceived economic conditions, the outlook for corporate earnings, interest or currency rates, or investor sentiment. An investment's value may change because of factors that affect a particular industry or industries, such as labor shortages, increased production costs, or competitive conditions within an industry.

Recently, domestic and international markets have experienced periods of acute stress. This stress has resulted in unusual and extreme volatility in the overall capital markets and the prices of individual investments. These market conditions could occur again and add to short-term volatility of investments, interest rates, and currencies.

**Industry Specific Risk.** Various industries are subject to risks unique to a said particular industry. Regulatory changes and other variables may lead to events that could potentially have a significant impact on the valuation, liquidity, and pricing of securities contained within that industry.

**Interest Rate Risk.** The price of most fixed income securities generally move in the opposite direction of the change in interest rates. For example, as interest rates rise, the price of issued fixed income securities generally fall; however, on the other hand, as interest rates fall, the price of issued fixed income securities generally increase. If a Fund holds a fixed income security to the stated maturity, the change in its price before maturity will have little impact on performance; however, if the Fund has to dispose of the fixed income security before the stated maturity date, a change in interest rates will generally result in a change in the price; potentially



resulting in a loss. Syndicated bank debt/loans generally pays interest at rates determined periodically by references to a base lending rate plus a premium. These rates may be re-determined daily, monthly, quarterly, or semi-annually which could lead to a change in price and investment income to the Funds and price movements.

**Inflation Risk.** Inflation can cause the value of assets with fixed payments, such as fixed income securities, to deteriorate. Portfolios having a larger concentration in fixed income securities versus other asset classes may have a larger exposure to inflation; hence, an increase in inflation could have a negative impact on the respective value of fixed income securities.

**Issuer Risk.** The value of an investment may change for a number of reasons directly related to the issuer, including but not limited to, management performance, financial leverage, and/or demand for the issuer's products or services.

**Maturity Risk.** In certain situations, Airacobra may purchase a fixed income security of a given maturity as an alternative to another fixed income security of a different maturity. Ordinarily, under these circumstances, Airacobra will make an internal adjustment to account for the differential interest rate risk between the two fixed income securities due to the change in maturity. This adjustment, however, makes a projection about interest rates movements at different maturities across the yield curve. To the extent the interest rate or the yield curve movements deviate from this projection, there is a maturity or yield-curve risk. Another situation where maturity or yield curve risk should be considered is in the analysis of a bond swap, repurchase agreement, reverse repurchase agreement, or securities lending transaction where the potential incremental returns are dependent on parallel shift assumptions for the yield curve.

**Diversification/Concentration Risk.** Under normal circumstances, Airacobra will attempt to properly diversify and limit concentration or exposure to any issuer or industry; however, this may not always be the case regarding the Funds. Higher concentrated portfolios may experience greater volatility or lack of liquidity than a more diversified portfolio.

**Liquidity Risk.** Certain investments may transact on a less frequent basis than other investments due, but not limited to, smaller capitalizations, lack of a public market, or restrictions on sales or transfers. In the event certain investments experience limited trading volumes, the prices of such investments may, at times, display abrupt or erratic movements. Additionally, it may be more difficult for Airacobra to purchase or dispose significant amounts of such investments without an unfavorable impact on prevailing market prices. As a result, these investments may be difficult to dispose or purchase at a fair price at the times when Airacobra believes it is desirable to do so. Investments less actively traded or over time experience decreased trading volume may restrict Airacobra's ability to take advantage of market opportunities or dispose of investments.

Investors in the Funds, in addition to the above mentioned liquidity risks, will be subject to certain holding periods, specific redemption dates, or transfer rights, hence reducing liquidity from a Fund Investor viewpoint. Holding periods, redemption policies, and transfer rights are detailed in the respective Fund's offering documentation.

As witnessed and highlighted in the most recent global financial crisis, capital markets, in general, are susceptible to liquidity events across all asset classes.

**Leverage Risk.** The Fund reserves the right to utilize as much borrowing and leverage as permitted under applicable law, limits set forth by the Fund's counterparties and other lending agents, and as internal guidelines allow. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss

**Counterparty Creditworthiness Risk.** When Airacobra engages in certain transactions, including, but not limited to: (i) private placements; (ii) swap transactions; (iii) forward foreign currency transactions and (iv) bonds and other fixed income securities, Airacobra relies on the credit worthiness of its counterparty. In times of market distress, a counterparty may default rapidly and without notice to Airacobra; hence Airacobra may be unable to take appropriate action to mitigate its exposure either because it lacks the contractual ability or market conditions make it difficult to take effective action in a timely manner. In the event of a counterparty default, the Funds could incur significant losses and in the event that a counterparty becomes insolvent or files for bankruptcy, the ability to eventually recover losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal entity governing the bankruptcy proceedings. Concerns about, or a default by, one large market participant or issuer could lead to significant liquidity problems for other participants, which may, in turn, lead to significant losses for the Funds.

**Off-Balance Sheet Risk.** In the normal course of business, Airacobra may invest in financial instruments with off-balance sheet risk. These instruments include forward contracts, swaps, and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if such instrument exposes the investor to an accounting and/or economic loss in excess of the recognized asset carry value in such financial instrument or if the ultimate liability associated with the financial instrument has potential to exceed the amount recognized as a liability in the statement of assets and liabilities. Airacobra may purchase long positions in option contracts that do not present off-balance sheet risk.

**Regulatory Risk.** Airacobra, given the current domestic and international political and regulatory climate, believes a change in laws and/or regulations may have a material impact on securities prices, businesses, sectors of the economy, general market environment, and on the Funds and Airacobra. A change in laws or regulations made by a government and/or a regulatory body may increase the cost of operating a business, reduce the attractiveness of investments, and/or change the competitive landscape.

As example, utilities face a significant amount of regulation in their operations, including the quality of infrastructure and amount charged to customers. For this reason, these companies face regulatory risk that can arise from events, such as change in the fees they can charge, that may make operating the business more difficult. A regulatory risk that could potentially affect the Fund would be a change in amount of margin investment accounts are able to have and/or utilize. If this changed, the impact on the capital markets and the Fund could potentially be material as this could force investors to meet new margin requirements or dispose of margined investments.

**Hedging Risk.** Airacobra will not, in general, attempt to hedge all risks inherent in Funds, and will hedge certain risks, if at all, only partially. Specifically, Airacobra may choose not, or

determine it is economically unattractive, to hedge certain risks, in respect to particular investments or the Funds' overall portfolio.

The Funds will enter into hedging transactions with the intention of reducing or managing risk. Even if successful, hedging transactions reduce the Funds' returns. Furthermore, it is possible hedging strategies will not be effective in controlling risk due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the investment being hedged, increasing rather than reducing risk and loss.

The Funds' hedges will not be static but continually adjusted based on Airacobra's projection of market conditions as well as the expected degree of non-correlation between the hedging transaction and hedged investment. The success of hedging strategies will depend on Airacobra's ability to implement in an efficient and cost-effective manner as well as the accuracy of Airacobra's ongoing projections concerning the hedging transaction and hedged investment.

**Short Selling Risk.** Short selling allows investors to profit from a decline in market price and involves selling securities not owned by the seller and delivering borrowed securities to the purchaser having an obligation to replace the borrowed securities at a later date. The magnitude to which a Fund engages in short sales will depend on the respective Fund's respective investment strategy and opportunities.

In some cases, a short sale creates the risk of theoretically unlimited loss in the price of the underlying security could increase without limit, thus increasing the purchase cost to replace the borrowed securities. The short seller is obligated to return securities equivalent to those borrowed, at any time, on demand by the lender by purchasing the securities at the market price or re-borrowing the securities from another counterparty. There can be no assurance a Fund will be able to maintain the ability to borrow securities sold short.

**Options Risk.** The purchase and sale of call and put options entail risks. Although an option buyer's risk is limited to the amount of the original investment; an option may be subject to greater volatility than an investment in the underlying security.

In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the specific time in which to execute said call. The risk for a writer of a put option is the price of the underlying security will fall below the exercise price over the specific time frame.

**Futures Contracts Risk.** Airacobra may invest in commodities futures contracts, options on futures contracts, and other products that may transact on commodities exchanges regulated by the U.S. Commodity Futures Trading Commission ("CFTC"), international exchanges, or in over-the counter markets. Future prices are generally volatile due to low margin deposits normally required in futures trading; an extremely high degree of leverage is common when transacting in futures. As a result, a relatively small price movement in a futures contract may result in a substantial loss. Similar to other leveraged investments, any purchase or sale of a futures contract may result in losses in excess of the amount invested. Futures transactions may be illiquid and frequently involve transactions costs.

**Forward Contracts Trading.** Airacobra may engage in forward contracts trading. Forward contracts and options, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks, FINRA member firms, and/or other financial institutions (taken together “**Counterparties**”) act as principles in these markets negotiating transactions on an individual basis. Forward contracts trading (to the extent forward contracts are not traded on exchanges) and “cash” trading are substantially unregulated; there is no limitation on daily price movements. Counterparties who transact in forward markets are not required to continue to make markets. These markets can experience periods of illiquidity, sometime of significant duration. There have been periods which Counterparties in these markets have refuse to quote or have quoted prices with an unusually wide spread between the price at which they were prepare to buy and at which they were prepared to sell. Disruptions can occur in any market due, but not limited to, unusually high trading volume, political intervention, or other factors.

**Index Contracts Risk.** Airacobra may invest in customized instruments in an attempt to hedge the risk of change in the level of broad market averages or indices, sector indices or a basket of securities, foreign currencies, or commodities. These strategies may be executed through the use of exchange-traded equity index options, (standardized or individually negotiate over the counter contract) or other forms of derivative contracts (collectively “**Index Contracts**”) structured by financial institutions.

Index Contracts generally have substantial risk associated with them, including possible Counterparty default, lack of liquidity from a market depth perspective, and, to the extent Airacobra’s view as to certain market movements are incorrect, the use of such Index Contracts could result in losses greater than if they had not been utilized by Airacobra. Certain over-the counter Index Contracts may have illiquid or no markets, hence Airacobra might not be able to close a transaction without incurring substantial losses, if at all.

**Swaps and Similar Contracts Risk.** In addition to Index Contracts and other exchange-traded options contract, Airacobra may invest in over-the-counter contracts that involve Counterparties and their respective ability to satisfy obligations under such contracts. Specially, Airacobra may utilize repurchase agreements, reverse repurchase agreements, securities lending agreements, forward contracts, or swap arrangements which may expose the Funds to risks that Counterparties to such contracts default on their obligations to perform under the relevant contracts.

**International Securities Risk.** Airacobra may invest in international sovereign debt which involve considerations and potential risks not typically associated with investing in domestic securities, including, but not limited to, the instability of some foreign governments, the possibility of expatriation, limitation on the use or removal of funds or other assets, foreign currency risk, changes in governmental administration, economic or monetary policy (domestic and international), or changed circumstances in dealings between nations. The application of foreign tax laws (e.g. the imposition of withholding taxes on dividends or interest payments) or confiscatory taxations may affect investment in international securities. Higher expenses may result due to costs that may be incurred in connection with foreign exchange conversion and potentially higher brokerage commissions. Foreign securities markets may be less liquid, more volatile, and subject to less governmental supervision than domestically, including lack

of uniform accounting, auditing, and financial reporting standards and potential difficulties enforcing contractual obligations.

**Currency Risk.** International securities and businesses are subject to moves in the currency markets. Currencies can be very volatile and negatively impact the value of an asset in an investor's domestic currency. As example, if the U.S. dollar strengthens versus the Japanese yen, the value of an asset based in Japan may lose value to a U.S. dollar-based investor.

**Geopolitical Risk.** Securities and businesses are subject to various types of geopolitical risk such as, but limited to, war, civil unrest, pandemic, and political changes such as coup d'états. These risks could have a negative impact not only on the valuation of assets but on the liquidity of respective capital markets.

**Special Situation Companies/Distressed Investments Risk.** Airacobra may invest in securities of issuers (i) in weak financial condition; (ii) experiencing poor operating results; (iii) having substantial financial needs or negative net worth; (iv) facing special competitive or product obsolescence issues; and/or (v) involved in bankruptcy or reorganization proceedings. Investment of this type involves considerable financial business risk that can result in substantial or total loss. Among difficulties involved in assessing and making investment in these issuers is it may be frequently difficult to obtain information as to the financial and operational condition of such issuer. The market prices of securities of such issuers are subject to abrupt and erratic market movement, above average volatility, and the spread between the bid and asked prices potentially greater than normally expected or experienced by market participants.

It may require some time for the market prices of such securities to reflect their projected intrinsic values. Some securities may not be widely traded and Airacobra's participation in such securities may be substantial in relation to the overall market for such securities. These types of securities require active monitoring and, at time, may require partaking in bankruptcy or reorganization proceedings with a more active involvement in the affairs of the issuer than originally contemplated by Airacobra. Participation in such proceedings may restrict or limit the Funds' and its affiliates' ability to transact in securities of the subject company.

**Risk Arbitrage Risk.** Airacobra may engage in risk arbitrage transactions where the Funds purchases securities at prices below the projected value of the cash, securities, or other consideration to be paid or exchanged for such securities in a proposed merger, exchange offer, tender offer, or other similar transaction (taken together "**Corporate Actions**"). Such purchase price may be substantially in excess of the market price prior to the announcement of a Corporate Action. If the proposed Corporate Action later appears likely not to be consummate, delayed, or in fact is not consummated, the market price of the security purchased by the respective Fund may decline sharply and result in losses if such securities are sold, transferred, or exchanged for securities or cash; the value of which is less than the purchase price. In certain transactions, the investment may not be "hedged" against market fluctuations resulting in loss, even if the proposed transaction is consummated.

Additionally, a security to be issued in a Corporate Action may be sold short by Airacobra in the expectation the short investment will be covered by delivery of such issued securities. If

the Corporate Action is not consummated, Airacobra may be forced to cover the short investment at a higher price than its short sale price, resulting in a loss.

**Control Investments Risk.** Control investments occur when the Fund(s) own a sizable block of equity and/or fixed income securities; namely becoming a dominate investor. There may be instance when the Funds, Airacobra, and/or affiliates will be restricted from transacting in or redeeming a particular investment as a result of the investment size, possession of material non-public information, or Airacobra's control investment strategy.

**Litigation and Regulatory Investigations Risk.** Some tactics Airacobra may utilize involve litigation. Either the Fund(s) or Airacobra could be party to lawsuits initiated by: (i) Airacobra; (ii) a company in which the Fund(s) invest; (iii) other shareholders; or (iv) state and federal governmental agencies or organizations. There can be no assurance any litigation, once begun, would be resolved in favor of Airacobra and/or the Funds. In addition, Airacobra is subject, from time to time, to formal or informal investigations or inquires by the SEC and other governmental, regulatory and/or self-regulatory organizations and agencies in connection with its activities. Litigation and regulatory investigations may involve significant expenses and therefore adversely affect such Fund's performance.

**Equity Securities Risk.** Investment in public equities are subject to the risk equity prices will adversely change over periods of time. In addition, common stock represents a share of ownership in a company and ranks after syndicated bank debt/loans, corporate bonds and preferred stock in claims on the issuer's assets in the event of bankruptcy.

**Reliance on the Adviser.** Airacobra's ability to achieve its objectives is dependent on its ability to identify profitable investment opportunities.

C. Not Applicable.

### **Item 9: Disciplinary Information**

There are no legal or disciplinary events material in the evaluation of Airacobra's advisory services or the integrity of management.

Airacobra, nor affiliates and their respective principals, senior management, and associated persons have been disciplined or sanctioned by any regulatory or self-regulatory agency or organization.

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

A. Airacobra is not registered nor does it have an application pending to register as a Financial Industry Regulatory Authority ("FINRA") member firm. Stone, an affiliate of Airacobra, has a new membership application pending with FINRA to become an introducing broker offering private placements of interest in private funds, private placement of debt and equity on a 'best efforts' basis, and other investment banking services. Nicholas R. Stone, the Managing Member and Chief Compliance Officer of Airacobra, as disclosed on the FINRA application, is the President, Financial and Operations Principal ("FINOP"), and Chief Compliance Officer of Stone. Mr. Stone, as disclosed above and on the FINRA application, is the Sole Member of Cabbage, and which in turn is the sole member of Stone. No additional personnel of Airacobra are registered representatives of a broker-dealer; however, Airacobra anticipates certain

personnel will be dually registered with Stone upon FINRA approval of Stone's membership application.

- B. Neither Airacobra, its personnel, nor affiliates and respective personnel are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. Below is a list of related persons of Airacobra as well as a description of their primary business:

**Stone & Company, LLC.** – a Delaware corporation under common control with Airacobra; whose sole member is Cubbage, which in turn is wholly owned and controlled by Mr. Stone. Stone is in the process of a new member application to become a FINRA member firm providing: (i) private placements of interest in private funds, some which may be sponsored by Airacobra; (ii) private placement of debt and/or equity on a “best efforts” basis; and (iii) other investment banking services.

**Cubbage Hill Holdings, LLC** – a Delaware limited liability company which is the sole member of Airacobra and Stone. Cubbage, in turn, is wholly owned and controlled by Mr. Stone. Nicholas R. Stone is a direct or indirect owner of each of the above mentioned affiliates. Please see Item 11 B– Other Potential Conflicts for further discussion on actual or potential conflicts of interest between Airacobra, Stone, and Cubbage.

It is anticipated Airacobra and its Funds may transact with these affiliates creating actual or potential conflicts of interest given the shared ownership. Conflicts of interest will be addressed by providing appropriate disclosure of such business relationships as well as ensuring the terms of all relationships shall be no less than commercially reasonable and competitive with amounts that would be paid to third parties on an “arms-length” basis. Currently Airacobra personnel share office space with Cubbage and Stone; Cubbage and Stone are expected to move into separate physical locations in 2017.

The firms mentioned directly above are under common control and are considered affiliates. Additionally, they may share personnel and services.

- D. Airacobra will not receive compensation from other investment advisors due to the fact it will not recommend other investment advisors to investors in its Funds. However, Airacobra personnel dually registered with Stone may be eligible to receive compensation for the recommendation of other nonaffiliated registered investment advisers through Stone's permitted FINRA activities of the private placement of interest in private funds.

The affiliation between Stone and Airacobra will be disclosed in writing to customers of Stone and investors in the Funds prior to a transaction. All compensation received for such services will be the result of an arm's length contract between Stone, dually register personnel of Airacobra, and Airacobra.

Stone will recommend nonaffiliated registered investment advisers that do not conflict nor compete with the investment strategies and mandates of Airacobra.

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

- A. Airacobra maintains a Code of Ethics (the “**Code**”), pursuant to SEC Rule 204A-1 and a General Standards of Professional Conduct (“**Conduct**”) that personnel must adhere as a condition of employment. The Code and Conduct includes information on Airacobra’s fiduciary duty, prohibited acts, privacy of information, disclosure of actual and potential conflicts of interest, the use of disclaimers, suitability of investment advice, prohibition of insider trading, and limitations on transactions in personal accounts.

All personnel have access to Airacobra’s Code and Conduct and execute, upon initial employment and annually thereafter, an acknowledgement of receipt of the Code, Conduct, and Airacobra’s policies and procedures with respective understanding and adherence. Additionally, personnel must provide, on at least an annual basis, the Chief Compliance Officer a list of all brokerage accounts and investment holdings for which personnel has beneficial interest or control (“**Cover Accounts**”) and personnel outside business interests.

The Chief Compliance Officer receives and reviews duplicate trade confirmations and account statements from Covered Accounts’ custodian agents.

Dually registered and/or employed Airacobra personnel must adhere to the higher standard of rule, regulation, and the respective company’s policies and procedures to which they are dually registered or employed.

Violations of the Code, Conduct, or Airacobra’s policies and procedures can result in sanctions up to and including the termination of employment.

Airacobra will provide a copy, free of charge, of the Code and Conduct to Fund Investors and prospective Fund Investors upon request.

For reference, please see the following Code and Conduct.



## **CODE OF ETHICS**

Personnel must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, former, current, and prospective investors in our Funds, Airacobra's personnel and respective affiliates, colleagues in the investment profession, and other participants of the global capital markets.
- Place the interests of our Fund Investors, Funds, and the integrity of the investment profession above their own interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analyses, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to ethically and professionally practice investment services that will reflect credit on the profession.
- Promote the integrity of, and uphold, the rules governing capital markets.
- Strive to maintain and improve their professional competencies as well as those of other investment professionals.

## **GENERAL STANDARDS OF PROFESSIONAL CONDUCT**

### **I. Professionalism**

- a. Knowledge of the Law.** Personnel must comply with Airacobra's policies, procedures, Code, Conduct, and all applicable laws, rules, and regulations of any federal and state government authority, regulatory organization, self-regulatory authority, licensing agency, or professional association governing their professional activities. Personnel must disclose any violation(s) of such laws, rules, and regulations and must not knowingly participate nor assist in any such violation(s).
- b. Independence and Objectivity.** Personnel must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Personnel must not offer, solicit, nor accept gifts, benefits, compensation, or considerations that could reasonably be expected to compromise their independence and objectivity.
- c. Misrepresentations.** Personnel must not knowingly make misrepresentations nor omit pertinent information relating to investment analyses, investment recommendations, investment actions, investment services, or other professional activities.
- d. Misconduct.** Personnel must not engage in conduct involving dishonesty, fraud or deceit, or commit acts that reflect adversely on their professional reputation, integrity, or competencies.

### **II. Integrity of Capital Markets**

- a. Material Nonpublic Information.** Personnel who possess material nonpublic information that would reasonably be expected to affect the value of an investment must not disclose such information to anyone, nor may personnel act on such information, without the prior written approval of Airacobra.
- b. Market Manipulation.** Personnel must not engage in practices that distort prices or artificially inflate trading volumes with intent to mislead.

### **III. Duties to Clients**

- a. Loyalty, Prudence, and Care.** Personnel have a duty of loyalty to our Fund Investors and Funds, must act with reasonable care, and exercise prudent judgment. Personnel must act for the benefit of our Fund Investors and Funds and place our Fund Investors' and Funds' interests before their personal and Airacobra's interest. Personnel must comply with all fiduciary duties they and Airacobra have in their relationships with Fund Investors and our Funds.
- b. Fair Dealing.** Personnel must deal fairly and objectively when providing investment analyses, making investment recommendations, taking investment actions, and/or engaging in other professional activities.

- c. **Performance Presentation.** When communicating investment performance information, personnel must make reasonable efforts to ensure the communication is fair, balanced, accurate, and complete.
- d. **Preservation of Confidentiality.** Personnel must keep information confidential about former, current, and prospective Fund Investors, unless:
  - i. The information discloses illegal activities of former, current, or prospective Fund Investors.
  - ii. Disclosure is required by law.
  - iii. Former, current, or prospective Fund Investors authorize the disclosure of the information.

#### **IV. Duties to Employer**

- a. **Loyalty.** In matters related to employment, personnel must act for the benefit of Airacobra and not deprive Airacobra of their skills, abilities, or otherwise cause harm to Airacobra.
- b. **Additional Compensation Arrangements.** Personnel must not accept gifts, benefits, nor compensation of any kind from persons or reasonably be expected to create conflicts of interest.
- c. **Responsibilities of Management.** Supervisory personnel must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and Airacobra's policy and procedures by anyone subject to their supervision or authority.

#### **V. Investment Analyses, Investment Recommendations, and Investment Actions**

- a. **Diligence and Reasonable Basis.** Personnel must:
  - i. Exercise due diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
  - ii. Have a reasonable and adequate basis, supported by appropriate research and due diligence, for any investment analyses, investment recommendations, and/or investment actions.
- b. **Communications with Current and Prospective Fund Investors.**  
Personnel must:
  - i. Disclose to current and prospective Fund Investors the basic principles of the investment process used to analyze and select investments, construct portfolios, and promptly disclose changes that may materially affect these processes.
  - ii. Use reasonable judgment in identifying factors important to such investment analyses, investment recommendations, and/or investment actions and include those factors in communications with current and prospective Fund Investors.
  - iii. Distinguish between fact and opinion in the presentation of investment analyses, investment recommendations, and/or investment actions.

- c. **Record Retention.** Personnel must develop and maintain appropriate documentation (including records and documents required by Airacobra's policy and procedures and any applicable laws, rules, and regulations) to support their investment analyses, investment recommendations, and/or investment actions.

**VI. Conflicts of Interests**

- a. **Disclosure of Conflicts.** Personnel must make full and fair disclosures to the Chief Compliance Officer on matters that could reasonably be expected to impair their independence and objectivity and, as a result, interfere with their duties to Fund Investors, prospective Fund Investors, Airacobra, and Airacobra's Funds. Such disclosures, whether written or verbal, should be delivered promptly and communicated clearly to Airacobra.
- b. **Priority of Transactions.** Investment transactions for our Funds must have priority over those for Airacobra and its personnel.
- c. **Personal Trades.** All personal transactions for personnel employed or otherwise associated with Airacobra must receive written approval from the Chief Compliance Officer or designee prior to execution. All personal transactions will be reviewed on at least a monthly basis by the Chief Compliance Officer or designee.
- d. **No Personal Benefit.** Without the prior written consent of the Managing Member and Chief Compliance Officer, no person employed or otherwise associated with Airacobra may personally receive any compensation, consideration, or other benefit from, or provided by, a Fund Investor, prospective Fund Investor, or other person, nor may any personnel personally pay or provide compensation, consideration, or other benefit to a Fund Investor, prospective Fund Investor, or other person.

## B. Other Potential Conflicts

Airacobra and affiliates, Cabbage and Stone, and respective personnel (together “**Related Persons**”) may provide services other than investment advice, including administration, organizing/managing business affairs, preparing financial reports and statements and providing audit support, preparing tax documentation, sales and investor relations support, and due diligence and valuation services for additional fees. A potential conflict arises in such circumstance because incentives may favor relations that pay additional fees.

Cabbage and Stone may cause Airacobra to purchase, sell, or hold securities of issuers in which Related Persons have an equity, debt, or other financial interest. For example, Stone may provide investment banking services for issuers affiliated with Cabbage, Airacobra, or contained within the Funds of Airacobra.

These Related Persons’ activities may cause the receipt or creation of information not generally available to the public. Related Persons have no obligation to provide such information or effect transactions on the basis of such information and, in many cases, will be prohibited from executing transactions on the basis of said created information. Similarly, investors in the Funds may have access to information regarding transactions not available to Related Persons’ clients; said Related Persons’ clients may act, through accounts managed by persons other than Related Persons, in a manner that may negatively impact the Funds or other Related Persons’ clients (e.g. through market movements or decreasing the availability or liquidity of securities).

As part of regular business, Airacobra and Related Persons hold, purchase, sell, transact, or take other related actions for their respective accounts and for the accounts of their respective clients concerning all types of financial instruments. Related Persons may provide investment recommendations and engage in other capital markets-oriented investment activities and services.

Related Persons will not be restricted in their performance of any such services or in the types of capital markets-oriented investment activities and services which they may make except as provided in the respective Related Persons’ governing documents. Dually registered or employed personnel will be required to perform to the higher standard contained in the respective governing documents which apply to their duties and responsibilities.

Related Persons may have economic interests in or other relationships with investments made by Airacobra and the Funds. Related Persons, subject to their respective policies and procedures, may make and/or hold an investment that may compete with, be pari passu to, senior or junior in ranking, held by Related Persons’ clients, and/or in which Related Persons’ partners, security holders, members, officers, directors, agents or personnel of such Related Persons’ clients serve on boards of directors, have managerial control, or otherwise have ongoing relationships. Each such ownership and other relationships may result in restrictions on transactions by the Funds and Related Persons and otherwise create conflicts of interest for the Fund and Related Persons. In such instances, Related Persons may, in their discretion, make investment recommendations and decisions that may be the same or different from those made with respect to the Funds’ investments.

Related Persons may partake in investments that would be appropriate for the Funds. No Related Persons has any duty, in making or maintaining such investments, to act in a way that is favorable to the Funds or to offer any such opportunity to the Funds, subject to each respective Related Persons' policy and procedures. The investment policies, fee arrangements, and other circumstances applicable to Related Persons may vary from those applicable to the Funds. Related Persons may provide advisory or other services for a customary fee with respect to investments made or held by the Funds with such Related Persons having right to such fees except to the extent governing documents of the applicable Related Persons expressly provide otherwise. Related Persons may have ongoing relationships with, render services to, or engage in transactions with other clients who make investments of a similar nature to those of the Funds, with companies whose securities or properties are acquired by the Funds, and own equity or debt securities issued by their respective clients. In connection with the foregoing activities, Related Persons may, from time to time, come into possession of material nonpublic information that limits the ability of Related Persons to effect transactions for their respective clients. The Funds and Related Persons client investments may be constrained as a consequence of Airacobra's and Related Persons' inability to use such information for advisory purposes or otherwise effect transactions that may have been initiated on behalf of the Funds and Related Persons' clients.

The professional staff of Related Persons will devote as much time that may be suitable for their respective clients. Subject to Airacobra's respective policies and procedures, Related Persons will not be required to offer such securities or investments to the Funds or provide notice of such activities to the Funds. Additionally, in managing client accounts, the professional staff of the Related Persons will devote as much time to clients as deemed appropriate to perform their duties; personnel may have conflicts in allocating time and services among the Funds and respective Related Persons client accounts.

The directors, officers, personnel, and agents of the Related Persons may, subject to applicable law and respective policies and procedures, serve as directors, officers, employees, partners, agents, nominees, or signatories and receive arm's length fees in connection with such service for their respective clients, respective clients, joint venture, or any affiliate thereof. No respective Related Persons' clients nor stockholders shall have the right to any such fees except to the extent policies and procedures of the applicable Related Persons expressly provides otherwise.

Related Persons serve or may serve as officers, directors, or principals of entities that operate in the same or a related line of business as the Funds. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of the Funds or other Related Persons' clients. The Funds may compete with other entities managed by Related Persons for capital and investment opportunities.

There is no limitation or restriction on Related Persons with regard to acting as investment manager (or similar role) to other parties or persons. This and other future activities of Related Persons may give rise to additional conflicts of interest. Such conflicts may be related to obligations that Related Persons or their affiliates have to other clients.

There are ethical screens or information barriers, physically and via policy, among Related Persons of the type many firms implement to separate individuals who make investment decisions from others who might possess material, non-public information that could influence such decisions. If Related Persons were to receive material non-public information about an investment or issuer, or have an interest in causing a Related Persons' client to acquire a particular investment, Airacobra may be prevented from causing the Funds to purchase or sell such asset due to internal restrictions. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible such controls could fail and result in Related Persons, buying or selling an asset while, at least constructively, in possession of material non-public information. Related Persons generally operate with information barriers on an integrated basis, such entities could be required by certain regulations, or decide it is advisable, to establish additional information barriers. In such event, the ability to operate as an integrated platform could be impaired, limiting Airacobra's access to personnel of Related Parties and potentially impair our ability to manage the Funds.

## **Item 12: Brokerage Practices**

A. **Broker-Dealer Selection and Commissions.** Generally, under the investment management agreement, Airacobra has broad authority to select Counterparties and negotiate commissions having a fiduciary duty to seek "best execution" when it places transactions.

Airacobra attempts to achieve "best execution" so the total costs or proceeds are the most favorable under circumstances presented at the time of the transaction.

Airacobra considers the full range of services and qualities of a Counterparty when executing transactions, though transaction price is often a more significant quantitative factor in determining the best execution of a particular transaction. In selecting a Counterparty for a particular transaction, Airacobra evaluates and considers the commission rate to be charged as well as other factors further discussed below.

Airacobra considers the following, but not limited to, factors in determining whether a Counterparty can provide the best qualitative execution: (i) capability; (ii) commission rate; (iii) financial responsibility; (iv) reputation; (v) responsiveness; (vi) value of provided research; and (vii) ability to engage in block transactions with attendant volume discounts. Thus, the determinative factor may not, alone, be the lowest possible commission cost. Where multiple competing markets exist, Airacobra will attempt to ensure the transaction is executed through the best market (or best market maker).

Airacobra considers the additional factors when placing a transaction with a Counterparty:

- Ability to maintain confidentiality of provided information;
- Services offered, including the range of markets, products covered, quality of research services, and investment recommendations; and
- Quality and timeliness of market information.

For derivative transactions, the following supplementary factors, though not limited to, will be taken into consideration: (i) range of derivative products offered; (ii) operational expertise in

providing confirmation, documentation, timely settlement, and ongoing operational support; (iii) terms and appropriate documentation; (iv) financial responsibility; (v) availability of the particular derivative product; and (vi) credit worthiness.

Stone, will not affect market transactions but provide a platform to offer or offer to sale Airacobra's Funds, nonaffiliated private funds, and partake in various investment banking activities that may or may not involve Airacobra and Related Persons.

**Periodic and Systematic Review.** The SEC has stated investment advisers should periodically and systematically evaluate the trade execution performance of Counterparties.

Airacobra has designated certain personnel (the "**Best Execution Committee**") to review, on a semi-annual basis, the quality of executions and value of other services received from Airacobra's Counterparties. Prior to its meetings, the Best Execution Committee will compile information and data regarding the counterparties' best execution policies and procedures and quality of actual executions as reported under the Securities Exchange Act of 1934, as amended, (the "**Exchange Act**") Rule 11 Article-5 and Article-6. The Chief Compliance Officer is responsible for documenting the results of Best Execution Committee meeting, conveying such information and data to the Managing Member, the Best Execution Committee, and Airacobra's Board of Directors. The Chief Compliance Officer will document and notify Airacobra's personnel of any change(s) to policies and procedures regarding Counterparty activity.

Airacobra continually monitors and evaluates Counterparties execution performance by, among other things, reviewing commission summaries and transaction reports. From time to time, quantitative performance data about counterparties may be acquired from third party evaluation services to assist the review process.

Airacobra shall periodically review internal transaction records and compare execution prices with historical prices in relevant markets.

1. ***Research and Other Soft Dollars Benefits.*** Airacobra manages the Funds on a discretionary basis. With having discretionary authority, Airacobra determines which investments to purchased or sale, amount of the investments to be purchase or sale, the commission to be paid, and the Counterparty to be utilized in effecting the transaction. Airacobra's primary consideration in selecting a Counterparty is ability to provide the most favorable price and execution under current circumstances.

Airacobra may allocate brokerage business based, in part, upon the ability to make payments with "soft" or commission dollars for products or services utilized for the benefit of its Funds. Airacobra may, therefore, use a Counterparty which provides research and securities transaction services even though lower transaction costs could be incurred by utilizing a Counterparty which offers limited research services and minimal securities transactions assistance. Airacobra will generally consider the aforementioned factors and services as they generally relate to its portfolio management capabilities as opposed to a particular Fund.

There is an inherent conflict of interest in seeking best execution when Airacobra directs brokerage business to certain Counterparties who assist in the payment of research related



products and services. To mitigate this conflict, in addition to the Best Execution Committee, Airacobra reviews counterparties for best execution on a regular basis by analyzing the actual execution price versus various benchmarks such as the volume weighted average price (“VWAP”).

Research and brokerage related products and services received by Airacobra from soft dollar arrangements may be useful in servicing some or all of the Funds. Some soft dollar services and products provided may be used for both research and non-research purposes. Under these circumstances, an appropriate allocation is made in proportion to the cost attributable to non-research purposes, which is paid directly by Airacobra.

Utilizing commissions for soft dollar payments to obtain research and brokerage products and services benefits Airacobra because it reduces expenditures for items Airacobra would incur without the use of soft dollars. As mentioned, this may conflict with seeking best execution for transactions as it creates an incentive to transact with Counterparties that provide, directly or indirectly, soft dollar research or other products and payments.

Currently, all soft dollar products and services are eligible under the safe harbor of Section 28(e) of the Exchange Act.

2. **Brokerage for Client Referrals.** Airacobra does not refer Counterparties to its Fund investors.
3. **Directed Brokerage.** Airacobra does not permit Fund Investors to direct brokerage transactions.

B. **Order Bunching.** Airacobra, as matter of policy, combines or bunches orders for execution. If orders are executed in a series of transactions rather than as a block, the transactions are generally posted to the Fund(s) at the average price. Airacobra personnel may participate in such orders in accordance with policies and procedures on allocation of investment opportunities and transactions. Bunched or block trades may result in lower transaction costs than if Airacobra placed multiple single orders.

Airacobra will place orders for the same security across the Funds in accordance with the aggregation procedures noted below. Airacobra, in advance of placing an aggregated order, will either:

- Designate the number of equity securities shares or fixed income bonds of the aggregated order to be allocated to each Fund; or
- Formulate a pro-rata allocation of equity securities shares or fixed income bonds to each Fund based upon asset size and mandate of the Fund.

Airacobra may make exceptions under the following circumstances:

- Specialized Funds receive priority. For example, a credit related private fund managed by Airacobra would receive first right to an opportunity to purchase a limited number of fixed income securities; and
- A Fund will not receive its pro-rata allocation if the total number of equity or fixed income securities is below a de minimis amount. These shares would be reallocated to the Fund with the more appropriate mandate for the given transaction(s).

### **Item 13: Review of Accounts**

- A. **Review of Accounts.** Documentation regarding each Fund's investment objectives, restrictions, mandate, and guidelines is reviewed by the Investment Team responsible for such Fund. Such documentation will generally be in the form of a schedule or exhibit attached to the investment management agreement executed by the Fund and Airacobra.

Each Fund is regularly monitored by the respective Portfolio Manager and Investment Team. Before an investment is added to the Fund, the Portfolio Manager determines if it is within the investment parameters of the Fund. The Portfolio Manager, with support from the Investment Team, monitors and reconciles cash and transactions on a daily basis. All of the previously mentioned tasks are part of the respective Portfolio Manager and Investment Team's daily review. On at least a monthly basis, the Investment Team performs stress tests, involving but not limited to, volatility, CDS spreads, interest rates, historic scenarios, and as required, currencies.

The Chief Compliance Officer reviews the Funds, on at least a quarterly basis, for prohibited activities.

- B. As set forth in Item 13(A) above, the Funds are reviewed periodically.
- C. **Reporting.** Fund Investors are generally provided a written monthly account statement with respective net asset value. Fund investors receive a semi-annual reporting package which includes a Fund overview, market commentary, Airacobra's outlook on the market and specific details around the statistics, composition, and attribution of the Fund(s).

On a quarterly basis, Airacobra holds a conference call with Fund Investors, the Portfolio Manager responsible for the Fund, and other Airacobra senior management. The conference call will be accompanied by a written presentation to provide an update on the Fund, relevant markets, and other operational items.

Investors in the Funds are furnished, within 120 days after the end of the fiscal year of the Fund, an Annual Report prepared by a third party accounting firm containing audited financial statements.

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

- A. No persons other than the Funds provide an economic benefit to Airacobra for providing investment advice or other advisory services.
- B. Airacobra may pay for Fund Investor referrals. Any such arrangement will be conducted in compliance with all applicable laws and regulations.

All referral fee arrangements must be reviewed and approved in writing by Airacobra personnel responsible for the relationship with the solicitor, the Chief Compliance Officer, and Managing Member. Before approving any such arrangement, the Chief Compliance Officer will be responsible for monitoring: (i) a background check to include proper licensing (or exemption therefrom) of the solicitor; (ii) a legal review of the solicitation agreement with the solicitor; (iii) a review to ensure Airacobra's Form ADV, Part 2 properly describes Airacobra's use of, and payments to, solicitors; and (iv) a review to ensure Fund Investors have received required disclosure documents and returned the signed acknowledgement of receipt for those

documents. No solicitor will receive payment without a disclosure statement signed by the Fund's investors on file. Any agreement with a solicitor will be in compliance with Rule 206(4)-3 of the Advisors Act. The Chief Compliance Officer will periodically review Airacobra's solicitation arrangements to monitor the solicitors' compliance with their contractual commitments.

Personnel of Stone are compensated with a base salary and discretionary bonus based on their marketing activities regarding the private placement of limited partnerships; specifically, the Funds and the funds of other nonaffiliated registered investment advisors.

### **Item 15: Custody**

The Funds' accounts are maintained at unaffiliated FINRA member firms, banks, or other custodian agents. Airacobra is generally deemed to have custody over the cash and securities held by the Funds based on its status as the general partner of each Fund. Airacobra employs internal controls designed to protect the Funds' assets, including a dual signature requirement for Fund Investor transfers. As disclosed above in Item 13(c) above, all Fund Investors receive annually audited financial statements in addition to statements provided by the Funds' administrator or other custody agent. Airacobra urges Fund Investors to review and compare statements provided by Airacobra, the administrator, and/or other custody agent.

### **Item 16: Investment Discretion**

Airacobra has discretionary authority with respect to investment decisions on behalf of the Funds.

### **Item 17: Voting Client Securities**

Airacobra acts in a fiduciary capacity with each of its Funds, therefore, Airacobra must act to maximize the Funds value. Each proxy proposal is reviewed on a case-by-case basis.

Airacobra has discretion to vote the proxies of investments in the Funds. Airacobra's policy is to vote against proposals that would prevent companies from realizing their maximum market value or insulate issuers and/or their management from accountability to shareholders or prudent regulatory compliance. Voting will be executed in accordance with procedures outlined below (as applicable, subject to limited exception).

- Receipt of proxy materials: Airacobra receives proxy materials from issuers, qualified custodians, or FINRA member firms regarding investments held in the Funds through the mail or other deliverable media.
- The Chief Compliance Officer or designee will call a meeting of appropriate Managing Member(s) and/or personnel (collectively referred to as "**Proxy Voting Committee**") on an as needed basis.
- Personnel that have a direct or indirect pecuniary interest in any issue presented for voting or any relationship with the issuer in question must inform the Managing Member(s) and Chief Compliance Officer in writing and recuse from voting decisions on such proxies.
- Prior to voting, if a conflict is identified, the Proxy Voting Committee will make a determination (which may be in consultation with outside legal counsel) as to whether the conflict is material or not.

- If no material conflict is identified pursuant to these procedures, the Proxy Voting Committee will make a recommendation to the Managing Member on how to vote the proxy in question in accordance with the guidelines set forth.
- Voting decisions: The Managing Member has responsibility for reviewing proxy materials and Proxy Voting Committee results and deciding how to vote each issue or initiative. The Chief Compliance Officer will deliver the proxy in accordance with instructions related to such proxy in a timely and appropriate manner.
- Records of Votes Cast: A written record of each proxy voted on by Airacobra will be recorded and maintained for the requisite period as outlined by the SEC. The Chief Compliance Officer or designee keeps a record of each security, number of shares voted, and how they were voted on each issue or initiative. This record is maintained and updated to reflect information for each proxy received throughout the year.
- Requests for voting records: Fund Investors may request proxy voting records. Personnel will notify the Chief Compliance Officer upon such request. The Chief Compliance Officer will respond to such requests providing information on how shares were voted on particular issues. The Chief Compliance Officer will maintain copies of all such requests and responses.

**Conflicts of Interest.** Airacobra must act as a fiduciary when voting proxies. Accordingly, Airacobra will seek to avoid possible conflicts of interest regarding proxy voting. Where potential conflicts of interest are identified, Airacobra will determine whether such potential conflict of interest is material.

Where there is potential for a material conflict of interest, Airacobra will take one or more of the following steps:

- Inform, in writing, the Board of Directors of the material conflict of interest and of Airacobra's voting decision.
- Discuss the proxy vote with the Board of Directors.
- Fully disclose the material facts regarding the conflict of interest and seek the Board of Directors consent to vote the proxy as intended.
- Seek recommendations of an independent third party.

Airacobra will document the steps it took to evidence the proxy vote or abstention was in the best interest of the Fund and not of any material conflict of interest. Documentation will be maintained in accordance with required recordkeeping procedures.

**Voting Guidelines.** Airacobra will endeavor to vote proxies in the best interests of each Fund.

Although voting certain proxies may be subject to discretion, Airacobra is of the view that voting proxies in accordance with the following general guidelines is in the best interests of the Funds.

- Airacobra will generally vote in favor of routine proposals, e.g. corporate housekeeping items such as the selection or reappointment of auditors.
- Airacobra will generally vote against proposals that:

- Limit shareholder democracy; making it more difficult to replace members of the issuer's board of directors or board of managers (e.g. indemnification protections for directors or officers).
- Introduce unequal voting rights (although there may be regulatory reasons that would make such a proposal favorable to certain Funds).

**Disclosure of Policies and Procedures, Voting Record.** Airacobra will provide a copy of the proxy voting policies and procedures and provide proxy voting records, free of charge, to Fund Investors and potential Fund Investors upon request.

**Item 18: Financial Information**

- A. Airacobra does not require prepayment of management fees. Management fees are generally payable quarterly in arrears for the prior period.
- B. At this time, Airacobra has no material financial information that requires disclosure.
- C. Neither Airacobra nor any Related Persons or individuals associated with Airacobra has been the subject of a bankruptcy petition at any time during the past 10 years.

**Item 1: Cover Page**

**Form ADV Part II  
Supplemental Brochure**



7800 Preston Road  
Suite 147  
Plano, Texas 75024

214.206.6367

July 15, 2016

**Nicholas R. Stone, CFA**

This brochure supplement provides information about Nicholas R. Stone that supplements the Airacobra Capital Management, LLC brochure. You should have received a copy of that brochure. Please contact Mr. Stone at 214.206.6367 or via email at *nicholas.stone@airacobracapital.com* if you did not receive Airacobra Capital Management, LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about Nicholas R. Stone is available on the SEC's website at *www.advisorinfo.sec.gov*.

## Item 2: Educational Background and Business Experience

### Nicholas R. Stone, CFA Managing Member

Year of Birth	1968 - Pittsburgh PA
Education	1990 – LaRoche College, Pittsburgh, PA – <i>B.S. Accounting</i>
Business Background:	<p>2015 – Present: Cubbage Hill Holdings, LLC, Plano, TX <i>President</i></p> <p>2015 – Present: Airacobra Capital Management, LLC, Plano, TX <i>Managing Member</i></p> <p>2015 – Present: Stone &amp; Co. Inc., Oakland, CA <i>President</i></p> <p>2012 – 2015: MUFG Union Bank, San Francisco, CA <i>Senior Portfolio Manager</i></p> <p>2010 – 2012: Civitas Securities, LLC, Dallas, TX <i>President and Chief Compliance Officer</i></p> <p>2010 – 2012: Civitas Wealth Management, LLC, Dallas, TX <i>Chief Investment Officer and Chief Compliance Officer</i></p> <p>2010 – 2010: Biglari Capital Corp., San Antonio, TX <i>Chief Operating Officer and Chief Compliance Officer</i></p> <p>2008 – 2010: CSG Investment, Inc., Plano, TX (affiliate of Beal Bank) <i>Senior Vice President</i></p> <p>2006 – 2008: NexBank Securities, Inc., Dallas, TX (affiliate of Highland Capital) <i>President and Chief Compliance Officer</i></p> <p>2005 – 2006: CSG Investment, Inc., Plano, TX (affiliate of Beal Bank) <i>Senior Trader</i></p> <p>1999 – 2004: PNC Capital Markets, Inc., Pittsburgh, PA <i>Director – Head of Core Products Trading</i></p> <p>1995 – 1999: Salomon Smith Barney, New York, NY <i>Vice President – Securities Lending/Prime Brokerage</i></p> <p>1994 – 1995: Boatmen’s Trust. St. Louis, MO <i>Senior Trader – Securities Lending</i></p> <p>1991 – 1994: Mellon Trust, Pittsburgh, PA <i>Trader and Assistant Officer – Securities Lending</i></p>

## Item 3: Disciplinary Information

Mr. Stone has not been involved in any legal or disciplinary events material to a Fund Investor’s evaluation of Mr. Stone or Airacobra.

#### **Item 4: Other Business Activates**

- A. Mr. Stone is the President and founder of Cubbage Hill Holdings, LLC, a Delaware limited liability company (“**Cubbage**”) located at 7800 Preston Road, Suite 147, Plano, Texas 75024. Cubbage is the sole member of Airacobra and owner (pending) of Stone & Company, LLC. (“**Stone**”), a Financial Industry Regulatory Authority (“**FINRA**”) member firm (pending regulatory approval). Mr. Stone is eligible to receive additional compensation from Cubbage and Stone.

Mr. Stone is the President, Chief Compliance Officer, and Financial and Operations Principal (“**FINOP**”) of Stone. As noted directly above, Stone is currently proceeding with a new FINRA membership application to become a registered broker-dealer. Stone provides Private Placement and Investment Banking services. These activities may include or involve the activities of Cubbage and Airacobra. Mr. Stone is eligible to receive additional compensation from Stone and Cubbage.

##### Actual or Potential Conflicts

As noted above, it is anticipated Airacobra and its Fund Investors may transact with each of these businesses, which creates actual or potential conflict of interest given Mr. Stone’s affiliation with, and ownership in, each entity. This conflict will be addressed by providing appropriate disclosure of any such business relationships, as well as ensuring the terms of all such relationships shall be no less than commercially reasonable and competitive with amounts that would be paid to third parties on an “arms-length” basis.

##### Receipt of Commission, Bonus, or Other Compensation

Mr. Stone is eligible to receive additional compensations from Cubbage and Stone. By having the potential to receive compensation from Cubbage and Stone, Mr. Stone could have an incentive to favor Cubbage’s and/or Stone’s activities based on the compensation received rather than on the need of Airacobra, Stone, or Cubbage customers. This conflict is addressed in the manner noted directly above.

- B. Mr. Stone is not actively engaged in any business or occupation for compensation not discussed in Item 4.A directly above.

#### **Item 5: Additional Compensation**

There is no additional compensation to report for Mr. Stone than provided in Item 4 directly above.

#### **Item 6: Supervision**

As Airacobra’s Managing Member, Mr. Stone oversees all of the company’s operations. As Portfolio Manager, Mr. Stone, regularly consults with the members of Airacobra’s Investment Team, but is ultimately responsible for investment decisions made on behalf of Airacobra’s Funds. Operational decisions made by Mr. Stone are generally discussed with Airacobra’s senior officers. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure.