



Item 1. Cover Page



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Form ADV, Part 2A (the “Brochure”)

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This brochure provides information about the qualifications and business practices of Aquilo Capital Management, LLC (“Aquilo”). If you have any questions about the contents of this brochure, please contact us at (415) 635-0140 or mschneidman@aquilocap.com. The information in this brochure has not been approved or verified by the Securities and Exchange Commission (“SEC”) or by any state securities authority.

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



Item 2. Material Changes to Form ADV Since Last Amendment

The following are the material changes to this brochure since Aquilo's last update in March 2019:

- Item 4 is updated to reflect regulatory assets under management.
- Effective January 1, 2020, Aquilo Capital II, L.P. will be converting from a closed-end fund to an open-ended fund and changing its name to Aquilo Capital LO, L.P. Any material changes will be updated in the next Form ADV filing.



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Item 4. Advisory Business

Aquilo is a California limited liability company that was founded in 2010. It was formed and is operated to manage investment funds and separately managed accounts for individual clients. Aquilo's manager, controlling owner and portfolio manager is Marc R. Schneidman.

Aquilo currently manages three investment funds (Aquilo Capital, L.P. (the "Core Fund"), Aquilo Capital Offshore, Ltd. (the "Offshore Fund"), a feeder fund to the Core Fund, and Aquilo Capital II, L.P., ("Fund II") (collectively known as the "Funds") and it only manages assets on a discretionary basis. It currently has no separate account clients, but it may accept a separate account client in the future.

Aquilo invests principally, but not solely, in equity and equity-related securities that are issued by companies in the life sciences industry and that are traded publicly in U.S. and non-U.S. markets on behalf of its clients, but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of the client's partnership or other account agreement.

The Funds are managed in accordance with their own investment objectives and are not tailored to any particular private fund investor.

As of December 31, 2019, Aquilo managed regulatory assets of approximately \$459.3 million on a discretionary basis.



Item 5. Fees and Compensation

Compensation for Advisory Services – Core Fund and Offshore Fund. Performance Allocation and Management Fees

The Core Fund offers different series of interests (“Series of Interests”) to potential investors. The Offshore Fund offers different series of shares (“Series of Shares”) to potential investors. As investment adviser to the Core Fund and the Offshore Fund, Aquilo receives management fees at an annual rate ranging from 1.5% to 2.0% (depending on the Series of Interests or Series of Shares) of the value of the underlying investors' capital account balance of the Core Fund as of the first business day of each calendar quarter. This management fee is deducted from Core Fund assets and is prorated for any investment period that is less than a full calendar quarter.

In addition to management fees, Aquilo is entitled to receive a performance allocation ranging from 15% to 20% (depending on the Series of Interests or Series of Shares) of the net profits of the Core Fund attributable to the capital account balance of each underlying investor.

Aquilo, in its discretion, may waive or reduce the management fee and/or the performance allocation for any of the investors.

A more detailed description of the pricing structure associated with each Series of Interests and Series of Shares and investor requirements is available within the Confidential Offering Circulars for the Core Fund and the Offshore Fund respectively.

Compensation for Advisory Services –Fund II

As investment adviser to Fund II, Aquilo receives quarterly management fees of 1.0% of the value of the net assets of Fund II as of the first business day of each fiscal quarter. This management fee is payable in advance, is deducted from Fund II assets and is based on each investor's capital account balance on the first day of each quarter. Aquilo, in its discretion, may waive or reduce the management fee for any of the investors.

In addition to management fees, upon payment of a distribution to investors, Aquilo is entitled to receive a carried interest of 20% of the net profits of Fund II.

Aquilo may waive all or any portion of the carried interest portion of a distribution with respect to any investor. During November 2019, Aquilo informed investors in Fund II that effective January 1, 2020, Fund II would change its name to Aquilo Capital LO, L.P. (“Aquilo LO”) and would convert from a closed-end fund to an open-end fund. The investment strategy of Aquilo LO will remain long-only and focused on the life science industry but certain terms would change and are outlined in the Agreement of Limited Partnership of Aquilo LO. Current investors in Fund II were given the right to fully withdraw from Fund II on December 31, 2019 or remain invested in Aquilo LO.

The specifics of the fee arrangement are fully described in the Confidential Offering Circular for



Fund II.

Fees Relating to Terminations and Withdrawals

Relationships with Aquilo's investment fund clients are terminable on expiration of the Core Fund's term, dissolution of the Core Fund or on Aquilo's withdrawal as the general partner or adviser.

With respect to terminating the advisory relationship, investors in the Core Fund and the Offshore Fund may generally withdraw/redeem a portion of its capital account on a quarterly basis, subject to certain limitations, including but not limited to: certain investor-level gates (depending on the Series of Interests), a withdrawal fee on withdrawals of investments made less than a specified period (depending on the Series of Interests), required notice periods of either 45 or 60 days' prior written notice (depending on the Series of Interests), restrictions on aggregate withdrawals, suspensions of withdrawal/redemptions, retentions of reserves, delays in payment and/or distributions in kind.

Investors in Series B and C will be subject to termination fees of either 3% or 5% for withdrawal of investments made within a specified period.

The withdrawal fees described above will be deducted from the capital account balance otherwise payable to the withdrawing investor, will be included as income in the profits and losses of the other capital accounts, and may be reduced or waived by Aquilo. They will not be charged, however, on any withdrawals relating to an amendment of the fund's partnership agreement or any expulsion, or withdrawals relating to certain "key person" events.

In all cases, investors and client accounts bear expenses, the pro rata portion of the management fee and the performance allocation or fee through the date of termination or withdrawal. An investment fund does not refund any management fee previously paid to an investor who withdraws from that fund on a date other than the last day of a quarter.

Expenses

Each client account is responsible for its own costs and expenses, including, but not limited to, trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. Aquilo generally bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. Securities brokerage firms that execute clients' securities and commodities trades, however, may pay all or part of these costs and expenses as discussed in Item 12 below.

It is critical that investors refer to the relevant confidential offering circular and other governing documents for a complete understanding of how fees are deducted from their



assets. The information contained herein is a summary only and is qualified in its entirety by such documents.



Item 6. Performance-Based Fees and Side-By-Side Management

Aquilo charges a performance fee in connection to its management of the Funds. It currently manages only accounts that pay performance-based compensation as described in Item 5. It does not manage accounts that do not pay performance-based compensation.



Item 7. Types of Clients

Aquilo is organized and serves as general partner and/or discretionary investment adviser to private investment funds. Aquilo may decide in the future to provide advice to separately managed accounts and to other private funds.

Aquilo generally requires investors in either of the Funds to make a minimum initial investment of at least \$1,000,000. Aquilo generally requires a minimum of \$5,000,000 to open a separately managed account.

The minimum contribution and investor requirements may be waived by Aquilo in its sole discretion.

Investors generally must be “accredited investors” under Regulation D who are also “qualified purchasers” under Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Aquilo generally requires investors to make representations concerning their financial sophistication and ability to bear the risk of loss of their entire investment in the Fund.



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

Investment Strategy

Funds managed by Aquilo focus on the life sciences industry, with a specific focus on biotechnology and drug discovery and development companies. Their goal is to provide long-term clients and investors with a high rate of return relative to risk over time, by investing primarily in a select group of under-followed or out-of-favor companies with market capitalizations generally of less than \$5 billion in the U.S. and globally. Aquilo's aim is to create, on behalf of each client, a portfolio of compelling companies that feature cash-rich, low-risk opportunities with low market cap and high-upside potential.

Based on its specialized scientific and business skills, strong relationships and visibility into the strategic direction of the major diagnostic and pharmaceutical industry players, Aquilo has developed and refined a multidisciplinary approach to life sciences investing.

Aquilo's strategy is to invest in life science companies based primarily on intensive analysis of the company's intrinsic value. The focus on value means less emphasis on short-term price movement and more emphasis on long-term prospects. Because of the life science sector's scientific complexity and exceedingly long product development cycles, there are very few patient long-term investors. Instead, the sector is dominated by traders who focus more on short-term price movements and near-term catalyst events rather than on intrinsic value and long-term prospects.

By taking the contrarian approach, Aquilo hopes to find compelling opportunities where others do not. The approach is intended to find "diamonds in the rough" that offer low-risk and high-upside potential. Fundamentally, Aquilo attempts to find companies that have proprietary technology, pharmaceutical company validation, strong financial positions, superior management, and deep product portfolios.

Aquilo draws on the extensive network of relationships, deal flow, and life science industry expertise of Marc R. Schneidman.

Aquilo attempts to identify companies with potential for high future valuation and those that are likely to struggle. Unlike many investors that focus solely on trading dynamics and short-term catalysts, Aquilo brings a multidisciplinary and strategic perspective in trying to understand when and how to achieve returns.

Although Aquilo invests primarily in the marketable securities of life science companies available in the open market, it may also invest in unregistered securities of public life science companies. These investments would be made by directly purchasing securities from issuing companies in privately negotiated transactions.

Aquilo's investment strategy is distinguished by its focused approach, extensive network and



collaborative model.

Both the Core Fund and Fund II invest in and trade securities, consisting principally, but not solely, of equity and equity-related securities that are issued by companies in the life sciences industry and that are traded publicly in U.S. and non-U.S. markets. In addition, the Funds may invest in preferred stocks, convertible securities, warrants, rights, options (including covered and uncovered puts and calls and over-the-counter options), swaps and other derivative instruments, bonds and other fixed income securities, non-U.S. currencies, futures, other commodity interests, private Securities and money market instruments.

Fund II's aim is to create a concentrated, long-only portfolio of compelling companies that feature cash-rich, low-risk opportunities with low market cap and high-upside potential. Although there may be significant overlap, the Fund II long-only portfolio is likely to differ from the Core Fund's long-only portfolio in the number of positions, the weighting and the investment horizon. The methodology in selecting investments and the due diligence are the same as the approach in managing the Core Fund, but, unlike the Core Fund, Fund II's portfolio is expected to be un-hedged and without significant short positions. While Fund II expects to focus Fund II's investments on the long side, when it deems it appropriate, it may invest assets using short selling, margin trading, hedging, and other investment strategies.

The investment strategies summarized above represent Aquilo's current intentions, are general in nature, and are not exhaustive. There are no limits on the types of securities or commodities in which Aquilo may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Aquilo may use any trading or investment techniques for its clients' accounts, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Aquilo may pursue any objectives or use any techniques that it considers appropriate and in its clients' interests.

Risk Factors

Investing in securities and commodities involves risk of loss that clients should be prepared to bear. Below are brief summaries of some of the risks that clients and investors should consider before investing in any account that Aquilo manages. Any of, or all, such risks could materially and adversely affect investment performance and the value of any account or any security or commodity held in an account and could cause investors to lose substantial amounts of money. Potential fund investors should review such fund's offering circular carefully in its entirety and consult with their professional advisers before deciding whether to invest. A potential client or fund investor should discuss with Aquilo's representatives any questions that such person may have before opening an account or investing in a fund that Aquilo manages.

The following are risks associated with both separate accounts and investment funds that Aquilo



manages:

- Client accounts may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Aquilo focuses on investing in securities of healthcare companies, which involves substantial risks, including (but not limited to) the following:
 - there is scarce capital being invested in these securities, leading to increased price volatility and unpredictable liquidity;
 - certain companies may have limited operating histories;
 - scarcity of management and marketing personnel with appropriate scientific or medical training may slow or impede companies' growth;
 - the possibility of lawsuits related to patents or products, obsolescence of products, change in government policies, changing investor sentiments and preferences with regards to healthcare sector investments (some of which are generally perceived as risky) may adversely affect the price of underlying securities;
 - volatility in the stock markets affecting the prices of healthcare company securities may cause an account's performance to experience substantial volatility; and
 - increasing regulation of, and government intervention into, the healthcare industry and the complexity raised by ethical issues.
- Aquilo invests a substantial portion of client assets in the securities of companies with micro-to-small-sized market capitalizations. Those stocks involve substantially higher risks in many respects than do investments in securities of larger companies. Prices of these companies' securities are often volatile and thinly traded.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security or commodity is unpredictable and can adversely affect an account's investments.
- An account may hold stocks that disappoint earnings expectations and decline and may short stocks that beat earnings expectations and rise.
- Aquilo may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive.
- Aquilo may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.
- Aquilo may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.



- Aquilo may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security or commodity hedged do not always correlate, resulting in losses on both the hedged security or commodity and the hedging instrument. Aquilo is not obligated to hedge a client's portfolio positions and it frequently may not do so.
- An account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Aquilo sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to deter short sales of the issuer's securities. Aquilo could be subject to such actions, even if they are baseless, and clients could incur substantial costs defending them.
- Aquilo may use leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, which increases volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses.
- Aquilo may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses. Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which Aquilo does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Aquilo may cause a client to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- Aquilo may cause clients to invest in securities of non-U.S., private, and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.



- Aquilo may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if Aquilo holds a large position in an issuer's securities, Aquilo's subsequent sale of all or any portion of that position could depress the market for those securities.
- Some of an account's positions may be or become illiquid, in which case Aquilo may not be able to sell those positions.
- An account may invest in restricted securities that are subject to long holding periods or that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.
- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- Aquilo determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If Aquilo's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.

Aquilo and its affiliates and agents generally are not responsible to any client or investor for losses incurred in an account unless the conduct resulting in such loss breached Aquilo's fiduciary duty to the client or investor. If the assets that Aquilo and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Aquilo to find attractive investments as the amount of assets that it must invest increases.

- No client or investor in any fund that Aquilo manages has been represented by separate counsel. The attorneys who represent Aquilo or its manager do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.
- Aquilo, an administrator or any government agency may freeze assets that any of them believes a client holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist and may transfer such assets to a government agency. None of Aquilo, a fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- Federal, state, and international governments may increase regulation of investment advisers, private investment funds, and derivative securities, which may increase the time and resources that Aquilo must devote to regulatory compliance, to the detriment of investment activities.



- Aquilo’s activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- Aquilo’s activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- Aquilo and its affiliates may spend time on activities that compete with an Aquilo client without accountability to that client, including investing for other clients and their own accounts. If Aquilo receives better compensation and other benefits from managing other assets or client accounts compared to managing another client, it has incentive to allocate more time to those other activities. These factors could influence Aquilo not to make investments on a client’s behalf even if such investments would benefit the client.
- Aquilo may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or clients.
- The following are risks associated with the investment funds that Aquilo manages:
 - There is not and will not be an active market for fund interests. It may be impossible to transfer any such interests, even in an emergency.
 - A fund may be unable to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force Aquilo to liquidate positions too rapidly and may so reduce the size of a fund that it cannot generate returns or reduce losses.
 - A fund may limit or suspend withdrawals of an investor’s assets from the fund.
 - A fund may establish a reserve for contingencies if Aquilo considers it appropriate. Investors may not withdraw assets covered by that reserve until it is lifted.
 - A fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
 - The funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a fund without a cash distribution to pay the related taxes.
 - If a fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.



The above is only a brief summary of some of the important risks that a client or fund investor may encounter. Before deciding to become an Aquilo client or invest in a fund that Aquilo manages, you should consider carefully all of the risk factors and other information in the fund's offering circular.



Item 9. Disciplinary Information

Not applicable.



Item 10. Other Financial Industry Activities and Affiliations

Not applicable.



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

Aquilo is not obligated to refrain from investing in securities held by the Funds that it manages except to the extent that such investments violate the Code of Ethics (“Code”) adopted by Aquilo in conformity with Rule 204A-1 under the Investment Advisers Act of 1940 (“Advisers Act”). As a condition of employment, all personnel are subject to the Code and must certify that they have read and understand the Code and agree to be subject to its provisions. As discussed below, the Code contains provisions relating to personal transactions, insider trading, and sets forth standards of business conduct – including the requirement that all personnel adhere to the federal securities laws and their fiduciary duties as investment advisers. Any employee of Aquilo who fails to comply with the Code risks serious sanctions, including dismissal and personal liability.

Code of Ethics

The Code governs personal transactions by all employees in order to ensure that their interests do not conflict with the interests of the Funds. The Code restricts the purchase of any security by any employee in which Aquilo holds a position or is considering a position. Therefore, employees are prohibited from trading in any securities related to Healthcare, biotechnology, pharmaceutical, medical devices or any other science that have any relation to Healthcare services. When an employee joins the Firm, the CCO will evaluate his or her current holdings to determine if there are any positions in securities that may present a conflict with this policy and make a determination whether those positions must be liquidated or can continue to be held by the employee.

All employees must provide quarterly reports of their personal transactions to the CCO within thirty (30) days of the end of the calendar quarter and may direct their brokers to send copies of all brokerage confirmations and statements relating to personal securities transactions to the CCO. The Code also requires all employees to comply with parameters relating to gifts and entertainment, including restrictions on giving gifts to, and receiving gifts from, investors or affiliates in violation of our gift policy as well as provisions intended to prevent violations of laws prohibiting “insider trading”, as discussed below.

The Code is circulated at least annually to all employees, and each employee must certify at least annually in writing that he or she has received and followed the Code and any amendments thereto. Aquilo will provide a copy of the Code to any client or prospective client upon request.

Insider Trading Policy

Aquilo and its related persons may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Specifically, the Code of Ethics prohibits employees from buying or selling securities either for the Funds, themselves or on behalf of others while in possession of material, non-public information about the company that violate applicable



securities laws. The Code of Ethics also prohibits the communication of material, non-public information about a company to others who have no official need to know. Depending on the circumstances surrounding the information received, Aquilo may place the issuer on the firm-wide “Restricted Securities List,” which would bar any purchases or sales of the issuer’s securities by any Aquilo employee or the Funds.

Aquilo solicits investors who may or may not be Aquilo’s clients to invest in the investment funds that it manages. Aquilo has an incentive to cause a client to invest in such a fund instead of a separately managed account because of the reduced expenses and administrative burdens of managing a fund compared to managing a separately managed account, Aquilo’s performance compensation from a fund may receive more favorable tax treatment than that from a separately managed account and fund investors have less transparency and liquidity than separately managed account clients. In addition, if a fund investor also has a separately managed account with Aquilo that uses an investment strategy that is similar to that of the fund, the investor may use knowledge of the other account’s portfolio to decide if and when to make an additional investment or withdraw assets from the fund at times when other fund investors would have made similar decisions had they had similar transparency. Aquilo discloses these conflicts of interest to clients and investors.

Because Aquilo may manage more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Aquilo selects investments for each client based solely on investment considerations for that client. Different clients may have differing investment strategies and expected levels of trading. Aquilo may buy or sell a security or commodity for one type of client but not for another or may buy (or sell) a security or commodity for one type of client while simultaneously selling (or buying) the same security or commodity for another type of client. Aquilo may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client. Aquilo is not obligated to acquire for any account any security or commodity that Aquilo or its officers, managers, members or employees may acquire for its or their own accounts or for any other client, if in Aquilo’s absolute discretion, it is not practical or desirable to acquire a position in such security or commodity for that account.



Item 12. Brokerage Practices

Aquilo has complete discretion in selecting the broker that it uses for client transactions and the commission rates that clients pay such brokers. In selecting a broker for any transaction or series of transactions, Aquilo may consider a number of factors, including, for example:

- net price, clearance, settlement and reputation;
- financial strength and stability; efficiency of execution and error resolution;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- special execution capabilities;
- order of call;
- offering to Aquilo on-line access to computerized data regarding clients' accounts;
- computer trading systems;
- the availability of stocks to borrow for short trades;
- economic and market information;
- portfolio strategy advice;
- industry and company comments;
- technical data;
- performance measurement data; and
- on-line pricing.

Aquilo may also purchase from a broker or allow a broker to pay for the following:

- custody, recordkeeping and similar services;
- research reports, services and conferences, including third-party research fees;
- proxy voting services;
- periodical subscription fees;
- news wire and data processing charges;
- quotation services;
- computer hardware and software;
- office equipment;
- clerical and administrative services and assistance;
- telephone and utility charges;
- accounting fees; and
- legal fees.

Aquilo may receive soft dollar credits based on principal, as well as agency, securities transactions and commodities with brokers or direct a broker that executes transactions to share some of its commissions with a broker that provides soft dollar benefits to Aquilo.

During Aquilo's last fiscal year, as a result of client brokerage commissions, Aquilo attended industry conferences, acquired data services (including services providing real time exchange data,



market data, company financial data, and economic data), services related to execution, clearing and settlement of securities transactions and reports on or other information about particular companies or industries.

Aquilo has retained Morgan Stanley & Co, LLC ("Morgan") to serve as prime broker and custodian to the funds that Aquilo manages. Aquilo may replace these firms or appoint additional firms at any time. The services that these firms currently provide as prime broker and custodian may include custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the agreements entered into between each fund and each firm. Morgan provides Aquilo with other services, which may include capital introduction services, portfolio reporting and access to electronic communications networks. Aquilo expects to use a substantial portion of these services for research and trading on behalf of the funds it manages and other accounts, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e). Although many prime brokers provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if Aquilo did not receive these services from Morgan, Aquilo would be required to pay for all or some portion of them. Aquilo is not required to direct a particular number of trades to Morgan or to continue to use it as prime broker, but it has an incentive to do so based on its prior and continued services.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If Aquilo uses commission dollars to pay for products or services that provide administrative or other non-research assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Aquilo may pay to a broker commission and mark-ups that exceed those that another broker might charge for effecting the same transaction because of the value of the brokerage, research, other services, and soft dollar relationships that such broker provides. Aquilo determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Aquilo's overall fiduciary duty to its clients. An account may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Aquilo's brokerage relationships benefit Aquilo's operations as a whole and all accounts that it manages, including those that do not generate the soft dollars that pay for such research and other benefits and accounts of clients that direct Aquilo to use a broker that does not provide Aquilo with soft dollar services. Aquilo does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate.

Aquilo's relationships with brokers that provide soft dollar services influence Aquilo's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft



dollar services and firms that do not. Aquilo has an incentive to select or recommend a broker based on Aquilo's interest in receiving soft dollar services rather than clients' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Aquilo uses soft dollars to pay expenses it would otherwise be required to pay itself.

Aquilo addresses these conflicts of interest by periodically evaluating the trade execution services that Aquilo receives from the brokers that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers.

Aquilo considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers, increasing or decreasing targets for each broker and the appropriate level of commission rates.

Aquilo may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Aquilo manages or with accounts of its affiliates. In such event, Aquilo may charge or credit a client the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the client than it would be if Aquilo were not executing similar transactions concurrently for other accounts. Aquilo may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both clients.

Aquilo may direct a certain amount of brokerage to a broker in return for the broker's referral of prospective clients or investors. Directing brokerage in exchange for client or investor referrals creates a conflict of interest in that Aquilo has an incentive to refer its clients' brokerage business to brokers to which it might not otherwise direct transactions. During its last fiscal year, Aquilo did not direct client transactions to a particular broker in return for client referrals.

If a client directs Aquilo to use a specific broker, Aquilo has not negotiated the terms and conditions (including, among others, commission rates) relating to the services provided by such broker. Aquilo is not responsible for obtaining from any such broker the best prices or particular commission rates. A client that directs Aquilo to use a specific broker may not be able to participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable pricing and execution. The client may pay higher commissions and mark-ups than it would pay if Aquilo had discretion to select broker-dealers other than those that the client chooses.



Item 13. Review of Accounts

Aquilo's manager, Marc R. Schneidman, reviews all accounts weekly. Those reviews consider such matters as asset allocation, cash management, the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels. Each investor receives a monthly recap of unaudited performance for the month, an individual capital account statement and an annual letter discussing annual performance and investment outlook.

Each investor will also receive annual audited financial statements and, if necessary, annual tax information for completion of its individual tax returns. Aquilo may make the reports available in hardcopy or solely via electronic transmission unless otherwise requested by an investor. Aquilo, in its discretion, may provide more frequent reports and/or more detailed information to all or any of the investors.



Item 14. Client Referrals and Other Compensation

Aquilo has engaged one or more solicitors to whom it pays cash, or a portion of the advisory fees paid by clients referred to it by those solicitors. In each case, this practice is disclosed in writing to the client and Aquilo complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, if applicable.



Item 15. Custody

Rule 206(4)-2 promulgated under the Advisers Act (the “Custody Rule”) (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. Aquilo is considered to have “custody” of the Funds’ assets, even though independent custodians (Prime Brokers) actually hold those assets. The Custody Rule generally requires investment advisers that have “custody” of client assets to cause certain account statements detailing holdings and transactions to be sent to clients and imposes certain other obligations. However, advisers to investment funds like the Funds need not comply with those requirements if, the adviser follows safeguarding procedures. Aquilo follows the safeguarding procedures by ensuring each Fund (i) is audited at least annually by an independent public accountant and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members or other beneficial owners within 120 days of its fiscal year-end.

Item 16. Investment Discretion

Aquilo has discretionary authority to make the following determinations without obtaining the consent of any of the Funds before the transactions are effected:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold;
- the brokers through which securities are to be bought or sold; and
- the commission rates at which securities transactions for client accounts are effected.

Aquilo’s discretionary authority is derived from an irrevocable power of attorney granted by the investors in each of the Funds under the Fund’s charter document and the subscription agreement executed by each of the Funds’ investors.



Item 17. Voting Client Securities

Aquilo votes all proxies on behalf of each account over which Aquilo has proxy voting authority based on Aquilo's determination of such account's best interests. In determining whether a proposal serves an account's best interests, Aquilo considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Aquilo abstains from voting proxies when it believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Aquilo and a client, Aquilo will vote all proxies in accordance with the policy described above. If Aquilo determines that this policy does not adequately address the conflict of interest, Aquilo will notify the client of the conflict and request that the client consent to Aquilo's intended response to the proxy solicitation. If the client consents to Aquilo's intended response or fails to respond to the notice within a reasonable time specified in the notice, Aquilo will vote the proxy as described in the notice. If the client objects in writing to Aquilo's intended response, Aquilo will vote the proxy as the client directs.

A client can obtain a copy of Aquilo's proxy voting policy and a record of votes cast by Aquilo on behalf of that client by contacting Aquilo.



Item 18. Financial Information

Not applicable.