

FORM ADV PART 2A: FIRM BROCHURE

Item 1: Cover Page

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This brochure (“Brochure”) provides information about the qualifications and business practices of Sandler Capital Management (“Sandler Capital” or “we”). If you have any questions about the contents of this brochure, please contact us at (212) 754-8121 or e-mail stacey@sandlercap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Sandler Capital is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.

Item 2: Material Changes

There have been no material changes since December 17, 2019 (the date of our last other than annual amendment). Changes reflected in this amendment include updated assets under management information and disclosure regarding the impact of force majeure events such as pandemics, natural disasters, wars, and similar events on our business and investments.

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Item 4: Advisory Business

Sandler Capital Management is a New York general partnership that was founded in 1986 and became a registered investment adviser in 1988.

We managed approximately \$2.226 billion in assets on a discretionary basis, and did not manage any assets on a non-discretionary basis, as of December 31, 2019.

We provide investment advisory services primarily to our private investment funds. In addition, some pooled investment vehicles have separately managed accounts with us. We also provide portfolio management services to unaffiliated non-U.S. entities that sponsor investment vehicles offered to non-U.S. investors.

Types of Advisory Services.

Long/Short Equity Strategies. Our main strategy is long/short equity. In this strategy, we aim to produce capital appreciation with muted volatility and downside protection characteristics. We utilize our insight into market dynamics and the comparative strengths and weaknesses of companies in multiple industries to identify both long and short investment opportunities. This strategy generally focuses on finding secular growth businesses (long) as well as secularly challenged businesses (short). This strategy typically has a net long bias, but net exposure is actively managed and dynamic and the portfolio may at times be run market neutral or slightly net short. This strategy invests primarily in publicly-traded equity securities, including both long and short positions in common stocks, and listed options thereon, as well as Exchange Traded Funds (ETFs), equity basket swaps and futures. The strategy also may invest in other equity securities, other options and debt securities. We also offer a leveraged version of our long/short equity strategy, which targets position sizes of approximately twice those of our long/short equity strategy.

Credit Strategies. In addition, we offer credit-focused asset management strategies. In these strategies we aim to achieve capital appreciation as well as return from interest and dividend income over shifting economic and market environments through industry and company-level fundamental analysis. These strategies focus on corporate credit opportunities and other investments across a company's capital structure generally. These strategies invest primarily in the full range of corporate debt and preferred stock issues, including but not limited to, term loans, senior secured bonds, unsecured bonds, and convertible bonds, preferred classes of stock, convertible preferred stock and credit swap derivatives. Some of these strategies also invest in common stocks, options, baskets of stocks (such as indexes or ETFs) and equity swaps and make both long and short investments.

Private Equity Strategies. We have historically offered private equity strategies that invest in securities that are not publicly traded. Our private equity funds are fully invested and not currently open to new investors.

All investment strategies use leverage. More detailed information about these strategies is found under Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss."

We refer to the long/short equity strategies and credit-focused strategies as our hedge fund business. We refer to the private equity strategies as our private equity business. Our hedge fund business and private equity business operate independently. Andrew Sandler, head of our hedge fund business, has greater

than a 25% interest in the hedge fund business, through companies controlled by him. Michael Marocco, head of our private equity business, has greater than a 25% interest in the private equity business, through companies controlled by him.

Our clients may select a strategy depending on their investment objectives. In addition, our separately managed account clients may impose restrictions or limitations on how we manage their accounts according to these strategies. These restrictions or limitations generally appear either in the client's investment management agreement or in investment guidelines that are adopted for the account. Additional information about this process can be found under Item 16, "Investment Discretion."

Item 5: Fees and Compensation

We act as investment adviser to private investment funds that we sponsor and to separately managed accounts. We receive fees for our services based on a percentage of the value of the assets in the client's account. These are referred to as "asset-based fees." We also receive performance fees (or allocations) for our services based on performance. These are referred to as "performance-based fees." Asset-based fees and performance-based fees payable by investors are described in each fund's offering memorandum which is provided to investors in such funds, and in each managed account holder's investment management agreement. A performance-based fee for a client's account may create an incentive to make riskier, more speculative investments than would be the case under a solely asset-based fee arrangement for that account. However, regardless of their fee arrangements, when we manage accounts according to the same investment strategy, we expect that those accounts will have the same investment opportunities and be invested in the same securities with the same weighting. See Item 6, "Performance-Based Fees and Side-by-Side Management" and Item 12, "Brokerage Practices."

Hedge Funds and Managed Accounts. Our basic fee structure for our long/short equity investment funds (Sandler Associates and Sandler Offshore Fund, Ltd.) is to charge a management fee (deducted and payable monthly in arrears) in an amount equal to 1.5% per annum of net assets of the investment fund plus a performance-based fee or incentive allocation as applicable (deducted and payable annually in arrears) at a rate of 20% per annum of new net profits.

Our basic fee structure for our leveraged long/short equity investment funds (Sandler Plus Domestic Fund, LP, Sandler Plus Offshore Fund, LP and Sandler Plus Domestic Fund II, LP) is to charge a management fee (deducted and payable monthly in arrears) in an amount equal to 2% per annum of net assets of the investment fund plus a performance-based fee or incentive allocation as applicable (deducted and payable annually in arrears) at a rate of 20% per annum of new net profits. Our leveraged long/short equity investment funds also offer another fee structure that provides for more frequent liquidity and charges a management fee (deducted and payable monthly in arrears) in an amount equal to 2.2% per annum of net assets of the investment fund plus a performance-based fee or incentive allocation as applicable (deducted and payable annually in arrears) at a rate of 20% per annum of new net profits. In addition, our leveraged long/short equity investment funds offer an alternative fee structure subject to a minimum investment amount of \$25 million and early termination fees, which provides that management fees be credited against performance-based fees or incentive allocations as applicable and charges a management fee (deducted and payable monthly in arrears) in an amount equal to 1.5% per annum of net assets of the investment fund and a performance-based fee or incentive allocation as applicable (deducted and payable annually in arrears) at a rate of 30% per annum of new net profits.

Our basic fee structure for our credit-focused, total return opportunities fund (Sandler Total Return Opportunities Fund, LP) is to charge a management fee (deducted and payable monthly in arrears) in an

amount equal to 1.5% per annum of net assets of the investment fund plus an incentive allocation (deducted and payable annually in arrears) at a rate of 15% per annum of new net profits.

Our basic fee structure for managed account clients is to charge a management fee (invoiced and payable monthly or quarterly in arrears) of up to 2% per annum of net assets under management plus, for managed accounts that pursue a long/short strategy, a performance-based fee (invoiced and payable annually in arrears) at a rate of up to 20% per annum of the annual profits attributable to such net assets. Our advisory agreements with managed account clients may generally be terminated upon prior written notice by us or by the client. Any fees paid in advance will be prorated to the date of termination and any unearned portion thereof will be returned to the client. Performance fees or allocations, if applicable, are pro rated in the event of contributions or withdrawals by investors and are paid at the end of the financial year to which the fee or allocation pertains or upon a withdrawal or redemption from a fund.

Private Equity Funds. Since January 1, 2017, we have not charged a management fee on our private equity partnerships. Historically, we charged a management fee of up to 1.275% per annum of invested capital (deducted and payable semi-annually in advance). We continue to charge a performance-based fee or incentive allocation as applicable, as we have historically done, at a rate of up to 20% of the overall profits attributable to the partnership provided that such profits exceed 8% per annum (deducted and payable periodically as investments liquidate). Any fees paid in advance will be prorated to the date of termination and any unearned portion thereof will be returned to the client.

Although our fees are generally not negotiable except in limited circumstances, we may waive, rebate, reallocate or reduce asset-based and/or performance-based fees for certain investors. Any performance-based fee charged will be in compliance with Rule 205-3 under the Investment Advisers Act of 1940.

In addition to the asset-based and performance-based fees described above, clients will incur brokerage and other transaction costs such as commissions, interest on margin accounts and other indebtedness. See Item 12, “Brokerage Practices.” Clients typically also bear legal, audit, tax preparation, administration, liability insurance or fidelity bond, registered office, directors and accounting fees and expenses, as applicable.

Occasionally, our funds enter into arrangements or side letters, typically with large or strategic investors or prospective investors, which provide for various terms that differ or supplement those described in the fund’s governing and offering documentation and include terms that are more favorable than those given to other investors. Terms addressed in such arrangements may include but are not limited to a reduced management fee (subject to a minimum investment amount), a most favored nations clause with respect to fees, liquidity and information rights (subject to a minimum investment amount and other requirements), a provision permitting the disclosure of fund information to an investor’s beneficial owners and their advisors, enhanced reporting, and such other terms as may be required by law or regulation applicable to such investors. Although we provide substantial input, these arrangements are solely at the discretion of the funds and the funds will only enter into such arrangements as permitted by the applicable fund’s operating documents.

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

As described in Item 5, “Fees and Compensation,” we receive asset-based fees and performance-based fees.

Performance-Based Fees. Performance-based compensation arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that would be

recommended under a different compensation arrangement. In addition, in our credit-focused strategies, we may manage accounts that are charged both an asset-based fee and performance-based fee and accounts that are charged only an asset-based fee. These different fee arrangements may create an incentive for us to favor accounts for which we receive a performance-based fee. Furthermore, given the different investment objectives of our strategies it is possible that in one strategy we may take a position in a security contrary to the position held in the same security by another strategy.

It is our policy, however, not to favor the interest of one client over another. We have adopted procedures that are designed and implemented to mitigate this potential conflict of interest, which include, but are not limited to, order allocation procedures as more fully described below including documentation of the rationale for allocation of investment opportunities among such accounts. See Item 12, “Brokerage Practices – Aggregating and Allocating Trades.”

Side-by-Side Management. We simultaneously manage private funds and managed accounts according to the same or a similar investment strategy (i.e., side-by-side management). The simultaneous management of these different investment products creates certain conflicts of interest, as the fees for the management of certain types of products may be higher than others. Nevertheless, when managing the assets of such accounts, we have an affirmative duty to treat all such accounts fairly and equitably over time, even though specific allocations may have the effect of benefiting one account against another when viewed in isolation. We are not subject to any specific requirements or restrictions on the timing of investments for our investment funds. We have adopted procedures that are designed and implemented to satisfy this duty. Regardless of their fee arrangements, when we manage accounts according to the same investment strategy, we expect that those accounts will have the same investment opportunities and be invested in the same securities with the same weighting, subject to regulatory or legal restrictions that would preclude participation in the same investment opportunities. We hard-code allocations into our order management system among accounts that employ long/short equity strategies and allocate trades across all accounts in accordance with our trade aggregation and allocation procedures. In addition, we periodically test the allocations of trades among accounts that employ the same strategy to confirm that such allocations are made in accordance with our procedures. By utilizing these procedures, we believe that portfolios that are subject to side-by-side management alongside other products are receiving fair and equitable treatment over time. See Item 12, “Brokerage Practices, Aggregating and Allocating Trades.”

Item 7: Types of Clients

We provide investment advisory services to our private investment funds, the investors in which are generally high net worth individuals, trusts, family offices, benefit plan investors, fund of funds, foundations and endowments, sovereign wealth funds, institutional investors, pooled investment vehicles, and corporations. In addition, high net worth clients and pooled investment vehicles have separately managed accounts with us, which vehicles are not registered as investment companies under the Investment Company Act of 1940, as amended. We also provide portfolio management services to unaffiliated non-U.S. entities that sponsor investment vehicles offered to non-U.S. investors. An investor in our private investment funds generally must be an “accredited investor” as defined in Regulation D under the Securities Act of 1933 and, for certain of the funds, an investor must be a “qualified purchaser” as defined under the Investment Company Act of 1940, as amended.

There is a minimum initial investment amount for investing in our private funds. Generally, a minimum of \$1 million is required to invest in our private investment funds, although certain funds have higher minimums as disclosed in their offering memoranda. The general partners of our domestic funds and the boards of directors of our offshore funds, at our recommendation, may in their discretion adjust

initial investment amount minimums as they deem appropriate. Separately managed account minimums are considered on a case-by-case basis.

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

The significant investment strategies and related material risks of our private investment funds and managed accounts are set forth below. These objectives, strategies and risks reflect the methods of analysis that we use to manage the funds and accounts.

Investments in the funds and managed accounts are not guaranteed; the instruments in which the funds and managed accounts invest may lose value. An investment in securities involves a risk of loss that an investor should be prepared to bear.

Methods of Analysis and Investment Strategies.

Long/Short Equity Strategies. Our main strategy is long/short equity. In this strategy, we aim to produce capital appreciation with muted volatility and downside protection characteristics. We utilize our insight into market dynamics and the comparative strengths and weaknesses of companies in multiple industries to identify both long and short investment opportunities. This strategy generally focuses on finding secular growth businesses (long) as well as secularly challenged businesses (short). This strategy typically has a net long bias, but net exposure is actively managed and dynamic and the portfolio may at times be run market neutral or slightly net short.

From a top-down view, our long/short equity strategy relies on our assessment of the macroeconomic and credit environments and the identification of key themes and sector/industry trends, as well as positive and negative catalysts among sub-sector groups. Our investment professionals actively monitor the competitive landscape of numerous industries, continually evaluating developments in technology, regulatory shifts and trends in consumer behavior and corporate usage. We also utilize our separate in-house two person credit team and several advisory relationships to analyze the macroeconomic environment and market technical factors.

From a bottom-up perspective, our long/short equity strategy stresses individual company and security-level fundamental analysis with a focus on the identification of growth in revenues and return on invested capital (ROIC). From both a sector and company level, we place a strong emphasis on valuation and the use of valuation tools. We also pay close attention to market action and technical factors, particularly in the sizing and timing of positions.

Our long/short equity strategy invests primarily in publicly-traded equity securities, including both long and short positions in common stocks, and listed options thereon, as well as Exchange Traded Funds (ETFs), equity basket swaps and futures. The strategy may also invest in other equity securities, other options and debt securities. We also offer a leveraged version of our long/short equity strategy, which targets position sizes of approximately twice those of our long/short equity strategy.

Credit Strategies. In addition, we offer credit-focused asset management strategies. In these strategies, we aim to generate returns from current income (interest & dividends) along with capital appreciation from longs and capital depreciation from shorts to achieve a total overall return. These strategies focus on corporate credit opportunities and other investments across a company's capital structure generally. Our investment approach involves an ongoing assessment of the credit cycle, identification of key catalysts driving sector and industry trends, and bottom-up fundamental company and credit/security

analysis to assess investment opportunities. Valuation analysis, through the use of a variety of methods, is an integral part of our security selection and portfolio construction process.

Our credit-focused strategies invest primarily in the full range of corporate debt and preferred stock issues, including but not limited to, term loans, senior secured bonds, unsecured bonds, and convertible bonds, preferred classes of stock, convertible preferred stock and credit swap derivatives. These strategies also invest in common stocks, options, baskets of stocks (such as indexes or ETFs) and equity swaps and make both long and short investments.

Private Equity Strategies. We have historically offered private equity funds that invest in equity securities that are not publicly traded. Our private equity funds are fully invested and not currently open to new investors.

There can be no assurance that the objectives associated with any strategies described above will be met. At any time, Sandler Capital may add, remove, or modify any of the strategies it employs and this includes any of the strategies discussed above. These methods, strategies, and investments involve risk of loss to clients who must be prepared to bear the loss of their entire investment.

Material Risks

These strategies present some material risks. Investors should refer to each fund's offering memorandum and related documentation which contain a more detailed discussion of risks.

A material risk of investing in any of the strategies described above relates to reliance on key personnel. The success of each strategy will be dependent on the judgment and abilities of Sandler Capital in making trading, investment and allocation decisions for its investment strategies. Andrew Sandler is responsible for investment decisions with respect to the long/short equity strategies, Douglas Schimmel is responsible for investment decisions with respect to the credit-focused strategies and Michael Marocco is responsible for investment decisions with respect to the private equity funds. The loss of the services of Andrew Sandler, Douglas Schimmel or Michael Marocco may have a material adverse effect on the strategies for which they are responsible. Strategy-specific material risks are set forth below.

The material risks of investing in the long/short equity or credit-focused strategies follow.

- *Market Risks.* The profitability of a significant portion of the investment strategy depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. Depending upon the investment strategy employed and market conditions, an investment strategy may be adversely affected by unforeseen events involving such matters as political crises, military actions, terrorist attacks, natural disasters, public health issues (including viral outbreaks such as the COVID-19 coronavirus), changes in currency exchange rates or interest rates, regulatory intervention or general market conditions creating illiquidity or pricing anomalies or value impairment.
- *Short Sales.* Short selling, or the sale of securities not owned by a portfolio, necessarily involves certain additional risks. Such transactions expose the portfolio to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and in the case of equities, without effective limit. There is the risk that the securities borrowed by the portfolio in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject

security are receiving similar requests, a “short squeeze” can occur, wherein the portfolio might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. In addition, global regulatory prohibitions on short sales may impair our ability to implement our investment strategy. Bans may add additional constraints to a strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions.

- *Options.* The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.
- *Swap Agreements.* Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than a year. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount” (i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular foreign currency or security, or in a “basket” of securities representing a particular index). Whether the use of swap agreements, if any, will be successful will depend on our ability to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Investors bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.
- *Exchange Traded Funds.* ETFs (which are generally registered investment companies) are effectively portfolios of securities. Accordingly, ETFs have many of the same risks as direct investments in common stocks or bonds although the potential lack of liquidity in an ETF could result in its value being more volatile than that of the underlying portfolio of securities. There may also be certain risks to the extent a particular ETF is concentrated on a particular sector, geographic region or asset class, and is not as diversified as the market as a whole. Investors in ETFs would bear their ratable share of the ETF’s management fees and expenses in addition to fees and expenses that may be charged by us. As a result, investors, in effect, will be paying duplicate levels of fees and expenses with respect to investments in ETFs.
- *Futures.* The use of futures is a specialized activity that involves investment strategies and risks different from those associated with ordinary portfolio securities transactions. While the use of these instruments may reduce certain risks associated with portfolio positions, these techniques themselves entail certain other significant risks. The portfolio could experience losses if the values of its futures positions were poorly correlated with its other investments, or if its positions could not be closed out because of an illiquid market and the portfolio is required to maintain a position until exercise or expiration. In addition, many futures exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit.

Contract prices could move to the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of futures positions and potentially subjecting the portfolio to substantial losses.

- *Leverage.* Leverage results in the portfolio controlling substantially more assets than it has equity. Leverage increases returns to the investors if the portfolio earns a greater return on investments purchased with borrowed funds than the portfolio's cost of borrowing such funds. However, the use of leverage exposes the portfolio to additional levels of risk including (i) greater losses from investments than would otherwise have been the case had the portfolio not borrowed to make the investments, (ii) margin calls or interim margin requirements may force premature liquidations of investment positions and (iii) losses on investments when the investment fails to earn a return that equals or exceeds the portfolio's cost of borrowing such funds. The portfolio faces risks due to leverage in the event that its equity or debt instruments decline in value.
- *Cybersecurity Risk.* Our information and technology systems and those of key service providers may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. A failure of any such system or a security breach or cyberattack could significantly disrupt our operations. Service providers are subject to the same cyber-security risks as we are. If a service provider fails to adopt, implement or adhere to adequate cyber-security measures, or in the event of a breach of its networks, information may be lost, damaged or corrupted or improperly accessed, used or disclosed. Any system failure, security breach or cyber-attack on us, or any of our service providers, could cause us or the funds or managed accounts to suffer, among other things, financial loss, business disruption, including trading capabilities and the ability to transmit payments, increased operating costs, liability to third parties, regulatory intervention and reputational damage.
- *Force Majeure Events.* Some force majeure events such as pandemics, natural disasters, wars, and similar events may adversely affect our ability and the ability of our service providers (including our counterparties and vendors) to perform our and their obligations, particularly if our or their employees become ill or are otherwise unable to work as a result. Certain force majeure events could have a broader negative impact on the world economy and international business activity generally. Any of the foregoing could adversely affect the performance of an investment strategy, could negatively impact our business and could have a material adverse effect on our ability to manage client assets.

The additional material risks of investing in the credit-focused strategies are as follows:

- *High-Yield and Debt Securities.* Investment in "high yield" bonds and preferred equity securities which are or become rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities) are subject to greater risk of loss of principal and payment of interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. Investment in debt securities which rank junior to other

outstanding securities and obligations of the issuer may be secured on a structurally subordinated basis and may not be protected by financial covenants or limitations on additional senior indebtedness.

- *Illiquid Securities.* Investments in securities that are relatively illiquid or that subsequently become illiquid may be difficult to sell at the most opportune times or at prices approximating the value at which such securities or investments are carried. These investments may be illiquid due to legally-imposed restrictions on resale or liquidation, because the market for the particular security or the volume of trading is so small as to effectively impose limits on the speed or price at which the liquidation of a given position can be effected, or due to a combination of the foregoing factors.
- *Distressed Securities.* Investment in “distressed securities” including debt and equity securities, accounts and notes payable, loans, private claims and other financial instruments and obligations of troubled companies may result in significant returns to the Partnership, but involve a substantial degree of risk, including risk of loss of the entire investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. Participating in a plan of reorganization involves additional risks, including risks associated with ownership in the reorganized entity. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation, which can be time-consuming, expensive, and can frequently lead to unpredicted delays or losses.
- *Credit Default Swaps.* In addition to general market risks, credit default swaps are subject to liquidity risk, counterparty risk and credit risk. The selling of credit default swaps involves greater risks than if the portfolio had invested in the reference obligation directly. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the portfolio. The buyer of credit default swaps will incur a loss if the seller fails to perform on its obligation should a credit event occur. In certain circumstances, the buyer can receive the notional value of a credit default swap only by delivering a physical security to the seller, and is at risk if deliverable securities are unavailable or illiquid.
- *Valuation.* It is expected that, at times, third party pricing information will not be available regarding certain investments in client portfolios. In such a case, valuations will be developed internally based on a methodology that we determine is appropriate in light of the nature, facts and circumstances of the investment. Such valuations are reviewed by our valuation committee on a monthly basis. Nonetheless, internal valuations may result in higher fees charged to clients if such valuations are incorrect, consequently resulting in a conflict of interest for Sandler Capital. For example, in the case of an overvaluation of the portfolio, compensation payable to Sandler Capital would be greater than if a lower valuation had been used.

The material risks of investing in the private equity funds are as set forth in their offering memoranda and related documentation. We no longer offer interests in our private equity funds.

Item 9: Disciplinary Information

Not applicable.

Item 10: Other Financial Industry Activities and Affiliations

Our general partners consist of companies controlled by Andrew Sandler, Douglas Schimmel, Vito Menza, Eric Lewis, Steven Warshavsky and Michael Marocco.

Sandler Associates GP, LLC, whose managing member is Andrew Sandler, as well as companies controlled by Andrew Sandler and Douglas Schimmel, are the general partners of Sandler Associates. Sandler Associates GP, LLC is also a service provider to Sandler Offshore Fund, Inc. and Sandler Master Fund, Ltd.

Sandler Plus GP, LLC, whose managing member is Andrew Sandler, is the general partner of Sandler Plus Domestic Fund, LP and Sandler Plus Domestic Fund II, LP and a service provider to Sandler Plus Offshore Fund, Ltd. and Sandler Plus Master Fund, Ltd.

Sandler TROF GP, LLC, whose managing members are Andrew Sandler and Douglas Schimmel, is the general partner of Sandler Total Return Opportunities Fund, LP.

In addition to our serving as investment manager, we and certain of our affiliates have a relationship with our private equity funds. We are the general partner of Sandler Investment Partners, L.P. which is a general partner of each of the private equity limited partnerships.

From time to time, we enter into agreements with our affiliated persons or related parties to provide services to our clients. We pay our affiliated persons or related parties compensation for providing such services, which is paid out of our fees and, such compensation does not increase the costs or fees payable by our clients.

Neither we nor any of our management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO") or commodity trading advisor ("CTA"). In addition, neither we nor any of our management persons is an associated person of an FCM or a CPO or CTA.

Neither we nor any of our management persons has a relationship with any third party that creates a material conflict of interest with us. We do not have any arrangement in which we are compensated for recommending or selecting other investment advisers for the funds or managed accounts, nor do we have any other business relationship with an investment adviser that would create a material conflict of interest with respect to our management of the funds or managed accounts.

Sometimes we may deem it advisable for our portfolio managers or other managing directors to serve on the board of directors or a creditors' committee of an issuer whose securities are held in client accounts. We may, however, elect to refrain from serving on a board of directors or a creditors' committee in order to avoid restrictions on trading in securities of the issuer. Employees may not serve on an unaffiliated, for-profit company's board of directors without our approval.

Employees and related persons may purchase securities for their accounts that are also recommended for our funds and managed accounts. Such personal trading may raise potential conflicts of interest. We have adopted a Code of Ethics (the "Code") governing personal trading by our employees, which is designed to prevent and detect such conflicts of interests. Clients and prospective clients may obtain a

copy of the Code upon request. The Code requires all of our employees to preclear all personal securities transactions not otherwise exempt under the Code. Preclearance requests will be denied when, among other reasons, the proposed personal transaction is deemed to adversely affect any transaction then known to be under consideration or being effected on behalf of any client account.

In addition to the preclearance requirement, the Code prohibits our employees from acquiring securities in any initial public offering. Our employees may also be subject to disgorgement of a portion of their profits if they trade on the same day as clients in the same securities as clients and receive a better price. Our employees are required to report their personal securities transactions and disclose their securities holdings and significant business holdings that may be deemed to present a conflict of interest with our clients. See Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.”

We manage partnerships for the benefit of certain of our partners and eligible employees. These partnerships may invest in the same securities as clients but are subject to restrictions on the timing and amount of their investments in those securities. See Item 12, “Brokerage Practices.” We do not receive performance-based fees for providing services to such partnerships. In addition, we do not receive performance-based fees from employees who directly or indirectly invest in our investment funds.

We may engage in cross trades between client accounts which will be conducted in accordance with applicable law. We may execute internal cross transactions (for portfolio rebalancing or other purposes) between client accounts as long as neither we nor an affiliate receives any transaction-based compensation, unless client consent has been obtained.

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

We have adopted a Code of Ethics (the “Code”), which is designed to set forth the general fiduciary principles governing employees, require compliance with the Federal securities laws, and to detect and prevent conflicts of interest. The Code is distributed to each employee at the time of hire. We also supplement the Code with training upon hire and periodically thereafter.

We permit our employees to engage in personal securities transactions, including buying or selling securities that we have recommended to, or purchased or sold on behalf of, clients. These transactions raise potential conflicts of interest, including when they involve securities owned or considered for purchase or sale by or on behalf of a client account. The Code imposes specific requirements concerning employees’ personal security investments including:

- Employees are required to report personal securities transactions in all covered securities, which exclude the following: direct obligations of the U.S. government, shares of mutual funds, commercial paper, certificates of deposit, high-quality short-term debt instruments, and shares issued by money market funds.
- Employees must receive prior approval before trading in a covered security, subject to limited exceptions. Authorization is effective only for the calendar day that the request was submitted and approved, except in limited situations related to private placements, when authorization is effective for the length of time reasonably required to effect the transaction, or thirty days from the day preclearance was granted, whichever is shorter.
- Employees who seek and obtain preclearance for a trade and enter into such trade may not enter into a trade in the opposite direction within 30 days.
- Employees may not engage in more than 5 purchase or sale orders in covered securities in any 30-day period.

- Employees may not purchase securities in initial public offerings.
- Employees must file quarterly reports and certifications of covered trading activity, and annual reports of holdings.
- Employees must report all brokerage accounts, positions and transactions in which they or certain family members have a beneficial interest or have or share investment discretion and are required to arrange for duplicate trading confirmations and account statements for such accounts to be sent for review by us, subject to limited exceptions.
- Employees must consult with and obtain approval prior to opening new brokerage account, and report if any personal account is closed or moved to a different broker or custodian

Our employees are also subject to the following additional requirements:

- Employees may not serve on the board of directors of any unaffiliated, for-profit company without approval.
- Employees are subject to restrictions on and reporting obligations for gifts and entertainment.

We may grant exceptions to provisions of the Code in circumstances determined not to be against the interests of clients. We can impose severe sanctions for violations of the Code by our employees, including termination of their employment.

Our employees or those of our affiliates may come into possession of material nonpublic information concerning various companies. We have established policies that serve to limit the dissemination of such information and provide us with flexibility in managing our clients' portfolios. Nevertheless, if we possess such information, our ability to buy or sell securities of such issuers for our clients may be restricted, although any such restrictions are expected to be infrequent. Such restrictions also may be imposed in isolated instances to prevent even an appearance that such information has been used in a manner contrary to law.

We will provide a copy of the Code to any client or prospective client upon request.

Item 12: Brokerage Practices

Selection and Compensation of Broker-Dealers. When we select a broker-dealer for transactions in our clients' accounts, we weigh a combination of criteria regarding the broker-dealer and the reasonableness of its compensation.

When selecting brokers to execute transactions, we are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission cost, but rather best overall execution. In our experience, neither the lowest commission rate nor the most expeditious execution necessarily correlates to the best trade for the client. The factors we consider in selecting a broker-dealer and determining the reasonableness of its compensation include but are not limited to:

- the nature of the security being traded;
- the size and type of the transaction;
- the nature and character of the markets for the security to be purchased or sold;
- the activity existing and expected in the market for the particular security;
- confidentiality;
- the quality of the execution, clearance and settlement services;
- financial stability of the broker or dealer;
- the existence of actual or apparent operational problems of any broker or dealer;

- regulatory, legal and macro-economic matters that may affect the broker-dealer;
- the broker-dealer's block trading and block positioning capabilities and ability to execute difficult transactions;
- the broker-dealer's responsiveness to our portfolio managers, traders, investment operations and legal and compliance personnel;
- research products or services provided;
- the nature of the research created or developed by the broker-dealer, which is called "proprietary research;"
- the broker-dealer's access to research that the broker-dealer itself has not created or developed, which is called "third party research;" and
- the value and quality of the research and other products and services other than brokerage services that we receive from the broker-dealer or that the broker-dealer pays for (either by cash payments or commission), as more fully described under "Soft dollar benefits," below.

Review of Broker-Dealer Execution. We have implemented a series of internal controls and procedures to address the conflicts of interest associated with our brokerage practices. To determine that our clients are receiving best execution for their transactions over time, we conduct periodic best execution reviews of our broker-dealers based on the above factors. In addition, we have engaged a third party to provide quarterly trade cost analysis which we use as an objective data point in connection with such reviews.

Soft dollar benefits. We receive research and other products and services other than brokerage services from broker-dealers and third parties in connection with client securities transactions. Research products and services received with client brokerage commissions within our last fiscal year include, among others: traditional research reports analyzing the performance of a particular stock or company; research information services on the economy, industries, groups of securities and individual companies; market data and economic data, including stock quotes, last sale prices and trading volumes; seminars or conferences (excluding the cost of travel, entertainment and meals); services used to transmit orders to broker-dealers for execution; and order management and other systems which electronically communicate allocation instructions between institutions, broker-dealers and our prime brokers. Soft dollar arrangements are subject to prior review and approval by our compliance personnel.

When we use client brokerage commissions to obtain research or other products or services from a broker-dealer or third party, we receive a benefit because we do not have to produce or pay for the research, products or services ourselves. Consequently, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution of trades. As a result, we may cause clients to pay commissions that are higher than those charged by other broker-dealers in return for research or other products or services provided.

It is not our practice to negotiate "execution only" commission rates. As a result, each client may be considered to be paying for research or other products and services provided by the broker-dealer that are included in the commission rate. In general, the research or other products or services furnished by broker-dealers through which we trade are used for the benefit of our clients as a group and not necessarily for the benefit of the particular client whose trades are handled by the broker-dealer who provides such research or other products or services.

We only use client brokerage commissions to pay for brokerage and research products and services that are eligible under Section 28(e) of the Securities Exchange Act of 1934. Sometimes, a portion of the brokerage and research products and services we use are eligible under Section 28(e) and another

portion is not eligible. These are referred to as “mixed use” products and services. In the case of “mixed use” products and services, we make a good faith allocation between the research and non-research use of services and use our own funds to pay for the percentage of the service that is used for non-research purposes. Our receipt of these mixed-use products and services and our determination of the appropriate allocation between our cash payments and the use of client brokerage commissions create a conflict of interest because we benefit to the extent that client brokerage commissions pay for the products and services.

Aggregating and Allocating Trades. We aggregate trades (also known as “bunching” trades) to obtain efficiencies that may be available on large transactions. These bunched orders are averaged as to price which, in some cases, may cause a client to receive a less favorable price than if the client’s order had not been aggregated. For all clients managed according to the same investment strategy, we usually allocate aggregated trades based on a percentage, pro rata or other objective basis. Generally, accounts managed according to the same investment strategy receive an allocation of securities that results in all such clients having the same level of exposure to such securities, and as part of such allocation, securities are allocated first to bring all participating clients to the same level of exposure and then to maintain such level of exposure. Exceptions may occur. For example, we may deviate from the percentage, pro rata or other objective allocation basis in order to avoid a de minimis allocation or to maintain round lots.

When we allocate bunched trades to client accounts, we do not favor the interest of one client over another. However, there may be differences in the amount purchased or sold for accounts. These differences may occur for a number of reasons, including but not limited to:

- client imposed restrictions or instructions;
- the need to restore appropriate weightings of the portfolio held by certain client accounts;
- eligibility to participate in a trade pursuant to compliance regulations or other applicable laws;
- tax considerations; or
- avoidance of de minimis allocations.

There may be instances when there is a limited supply for a particular security or investment opportunity. In such cases, it is our general policy to make a pro rata allocation to accounts based on the original amounts targeted for each account. We may exclude certain accounts from such pro rata allocations if, for example, such allocations would result in such accounts receiving amounts that the portfolio manager believes are too small to properly manage. We cannot assure that in every instance an investment will be allocated on a pro rata basis.

Contemporaneous Trading. In connection with portfolio rebalancing transactions, we may purchase or sell the same securities for more than one advisory client account on the same day (including at the same time) in the same direction, the opposite direction or a combination of the two directions. A concurrent purchase for one client and sale for another client may result in a loss for one client and a gain for another client. We have adopted policies and procedures which we believe are designed to treat clients fairly and prevent clients from being systematically favored or disfavored in connection with such transactions. See Item 6, “Performance-Based Fees and Side-by-Side Management.”

Initial Public Offerings. Sometimes client accounts have the opportunity to participate in an initial public offering (“IPO”). We will allocate IPO shares to a client account if we believe that, based on the account’s investment restrictions, risk profile, asset composition and cash levels, the IPO is an appropriate investment and the account is otherwise eligible under FINRA rules. When making allocations among accounts, we generally intend to allocate IPOs to eligible accounts on an equitable

basis, based on the relative net asset values of the underlying investors in such accounts that are eligible to participate in IPOs. However, we may decide, in our sole discretion, based on certain factors such as avoidance of a de minimis allocation, available cash, or other reasons, that a particular account should receive fewer shares or no shares of a particular IPO. This may result in some client accounts being given no stock in a particular offering. Client accounts that employ credit-focused asset management strategies will not receive any IPO shares.

Item 13: Review of Accounts

Our portfolio managers, analysts, operations and compliance teams review client accounts on a regular basis, including monitoring of client objectives and guidelines and the portfolio management team's general policies and strategies.

Each investor in our long/short equity funds and our leveraged long/short equity funds receives a monthly statement as to the value of his or her investment, a monthly exposure report and performance attribution, a quarterly letter with portfolio manager commentary on current investment strategy and outlook including performance results, annual audited financial statements and annual tax information, if applicable. In addition, on a semi-annual basis, each investor in these funds receives a transparency report from its administrator which sets forth what percentage of the relevant fund's assets have been independently priced and confirmed by the administrator and lists the fund's counterparties, custodians and ASC 820 classifications. We also conduct meetings with investors in these funds on an annual basis and upon request. Separate specialized reports are delivered as requested by investors in these funds. Managed account clients that employ our long/short equity strategy receive the reporting provided for in the investment management agreement governing such accounts or as requested.

Each investor in our credit-focused total return opportunities fund receives a monthly statement as to the value of his or her investment, a quarterly letter with portfolio manager commentary on current investment strategy and outlook, annual audited financial statements and annual tax information. Managed account clients that employ a credit-focused strategy receive the reporting provided for in the investment management agreement governing such accounts or as requested.

Each investor in our private equity funds receives a semi-annual status report on the value of each portfolio company investment as well as a statement reflecting the status of such investor's capital account at such time, annual audited financial statements (including a balance sheet, an income statement and a statement of changes in his or her capital account balance) and annual tax information reported on Form K-1, if applicable.

Item 14: Client Referrals and Other Compensation

We sometimes enter into solicitation or referral agreements with third parties under which we pay solicitors a percentage or portion of the compensation we receive on the accounts referred by the solicitor. If we pay a cash fee to anyone for soliciting clients on our behalf, we comply with the requirements of the SEC's cash solicitation rule, if applicable. This rule requires a written agreement between the investment adviser and the person soliciting clients on its behalf. The rule also requires that, under certain circumstances, the soliciting person provide a disclosure document to the potential client at the time that the solicitation is made. As required by the rule, we will not engage another person to solicit clients on our behalf if that person has been subject to securities regulatory or criminal action within the preceding ten years or otherwise subject to a disqualifying event, as defined in the Securities Act of 1933.

The fact that we may share a portion or percentage of the compensation we receive for investment advisory services will not result in any client being charged fees at a rate in excess of the rate or level of advisory fees we customarily charge our investment advisory clients for similar services to comparable accounts, nor will we charge any client any other amount for the purpose of offsetting our cost of obtaining an account through a third party referral.

In addition, our funds and separately managed accounts have one or more prime brokers through which trade clearance and financing are coordinated. Prime brokers may also provide us with research, reporting and analysis tools as part of their services. In addition, a prime broker may host events (including conferences) and provide capital introduction services through which our funds may identify potential investors. None of Sandler Capital or our funds compensates any prime broker for organizing such events or for providing such services, or for any investments ultimately made by prospective investors contacted by prime brokers.

We are not currently soliciting clients on behalf of the private equity funds.

Item 15: Custody

We do not have actual physical custody of any client's cash or securities. Instead, all such assets are held in the name of each applicable investment fund or separately managed account by an independent qualified custodian. Such custodians may be broker-dealers, prime brokers, banks, trust companies, ISDA counterparties or other qualified institutions. Although we do not have physical possession of our clients' cash and securities, we or an affiliate, among other things, acts as general partner to private investment funds for which we serve as investment adviser. This may cause us to be deemed to have custody of the private investment fund's assets for purposes of the custody rule. Accordingly, to meet the requirements of the custody rule, private investment funds for which we serve as investment adviser are subject to an annual audit in accordance with generally accepted accounting principles conducted by an independent public accountant that is subject to regular inspection by the Public Company Accounting Oversight Board and the audited financial statements are distributed to investors in the private investment funds within 120 days of the end of the funds' fiscal year.

We do not have custody of cash or securities of clients for whom we manage separate accounts. Managed account clients select their own qualified custodians, such as banks or broker-dealers, to maintain client funds or securities. Such clients receive account statements directly from their custodians and should carefully review such statements.

Item 16: Investment Discretion

We have investment discretion to manage securities on behalf of client accounts. Managed account clients may impose restrictions on this discretion, which are in the investment management agreement and guidelines for their accounts and specify the types of investments permitted. These guidelines sometimes place limits on the types of securities or on the amount of securities of particular issuers or industries that we can purchase for the account. Our portfolio managers, analysts, traders, operations and compliance teams participate in the review of a managed account's guidelines before we begin managing the account. Managed account clients can generally change these restrictions by amending their investment management agreements or guidelines or by other written instructions. For our funds, we are provided discretion through limited partnership agreements and investment management agreements.

Item 17: Voting Client Securities

We are authorized to vote the securities held by our funds. When a managed account client retains us as investment adviser, the client's investment management agreement will state whether or not the client has authorized us to vote the securities in his or her account. We have adopted policies and procedures for when we exercise this voting authority.

To assist us in voting publicly traded client securities, we currently use Institutional Shareholder Services, Inc. ("ISS"). Our standard guidelines for voting such securities follow ISS voting recommendations. For those clients for whom we have voting authority, we instruct the client's custodians to send all ballots to ISS and we instruct ISS on which guidelines to follow. Rarely, when we believe it is in the best interest of our clients, we will override ISS's recommendations.

For privately held securities, we have developed guidelines and recommendations which summarize our typical approach to several common proxy voting situations with respect to exercising our voting authority. In general, we will vote such proxies in the best interest of our clients.

Clients who wish to obtain either a copy of our voting policies and procedures or information as to how securities in their account were voted should send a written request to:

Sandler Capital Management
711 Fifth Avenue, 15th Floor
New York, NY 10022
Attention: Stacey W. Seewald

Item 18: Financial Information

Not applicable.