

**Part 2A of Form ADV: Ikarian Capital, LLC – *Brochure***

**Item 1 Cover Page**

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Ikarian Capital, LLC  
100 Crescent Court  
Suite 1620  
Dallas, TX 75201

This brochure provides information about the qualifications and business practices of Ikarian Capital, LLC (“Ikarian”, the “Adviser” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (214) 276-0665. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Ikarian Capital, LLC is an SEC registered investment adviser firm. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain an investment adviser. This brochure does not constitute an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

Additional information about Ikarian Capital, LLC is also available on the Securities and Exchange Commission’s (“SEC”) website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 Material Changes**

The Adviser is a new registrant. Therefore, this is its initial “Brochure” with the SEC. In the future, this Item will discuss only specific material changes that are made to the Brochure and provide a summary of such changes.

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

- A. The Adviser is a Delaware limited liability company and has its principal place of business in Dallas, Texas. The Adviser provides discretionary investment advisory services to (i) private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments and other institutions (the “Fund” or “Funds”); and (ii) separately managed accounts (“Separate Accounts”) including high net worth individuals, retirement plans, trusts, partnerships, corporations, or other businesses (the “Accounts” and, together with the Funds, the “Clients”).

The Adviser was formed in 2015 by its founders, Neil Shahrestani and the Chart Westcott Living Trust.

- B. The Adviser seeks to generate consistently high, risk-adjusted returns that are uncorrelated to the broader. The Adviser will seek to achieve this objective by employing a deep fundamental approach to identify themes across the biotechnology and pharmaceutical sub-sectors.
- C. While each of its Clients will follow the general strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client based on the particular investment objectives and strategies described in the applicable Client’s (i) confidential offering memorandum or separate account agreement (as applicable) and (ii) governing documents (referred to collectively as “Offering Documents”).
- D. The Adviser does not participate in wrap fee agreements.
- E. As of December 31, 2019, the Adviser manages \$553,029,971 in discretionary assets and \$0.00 in non-discretionary assets.

## Item 5 Fees and Compensation

- A. Below is a discussion of how the Adviser is compensated in connection with providing advisory services to its Clients. The Adviser may enter into different fee arrangements on a Client by Client basis.

### Private Fund

*Management Fees.* For its services to the Fund, the Adviser is entitled to a management fee (the “Management Fee”) at an annual rate of (i) one and a half percent (1.5%) with respect to each Founders capital account and two percent (2.0%) with respect to each Class B capital account. The Management Fee is calculated and paid each calendar month in advance.

*Performance Allocation.* The general partner of the Fund (the “General Partner”), which is an affiliate of the Adviser, is entitled to a performance-based profit allocation at the end of each calendar year equal to fifteen (15%) with respect to each Founders capital account and twenty percent (20%) with respect to each Class B capital account of the net profits attributable to each limited partner’s interest, but only to the extent that such profits exceed any losses carried forward from prior years.

Net profits includes unrealized appreciation or depreciation of marketable positions but generally includes only realized amounts in the case of any non-marketable investments.

*Organizational Expenses.* The Fund bears the expenses of the organization of the Partnership and the offering of limited partner interests (including legal and accounting fees). The organizational expenses borne by the Fund are described in more detail in the Fund’s Offering Documents.

*Direct Expenses of the Fund.* The Fund is responsible for all direct expenses related to its operations and activities, including all of its expenses associated with its investment portfolio, including brokerage commissions and other transaction costs. The Fund bears the full cost of expenses related to proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees and any withholding or transfer taxes imposed on the Fund. The Fund also bears all out-of-pocket costs of the administration of the Fund, including accounting, audit, legal and other professional expenses, research-related travel and expense, costs of any litigation or investigation involving the Fund’s activities, and costs associated with reporting and providing information to existing and prospective limited partners. However, the Adviser may, in its sole discretion, choose to absorb any such expenses incurred on behalf of a Fund. The Direct Expenses borne by the Fund are described in more detail in the Fund’s Offering Documents.

*Withdrawals.* Subject to the terms and conditions set forth in the offering documents, each limited partner may typically make a complete or a partial withdrawal of amounts from a limited partner's capital account as of the close of business on the last day of any calendar quarter (each, a "Withdrawal Date"); provided that either (i) such Withdrawal Date is at least twelve (12) months after the date that such capital account was established (the "Initial Withdrawal Date") or (ii) such limited partner pays a withdrawal fee (as defined in the offering documents). Notwithstanding the foregoing, the General Partner may disallow a partial withdrawal if, after giving effect to such withdrawal, that limited partner would not have an aggregate capital account balance of at least \$1,000,000 thereafter (subject to reduction or waiver by the General Partner). Withdrawal requests generally must be given to the Fund in writing at least forty-five (45) days prior to the requested Withdrawal Date (unless otherwise determined by the General Partner). As noted above, withdrawal rights (including the applicable Initial Withdrawal Date) will be applied and determined separately with respect to each capital account established with respect to a limited partner.

#### Separate Accounts

*Management Fees.* The fees and expenses associated with the accounts will be negotiated with each account and are described in detail in each account's Offering Documents. The Management Fee is typically charged quarterly in advance and will generally be paid upon invoice to the account holder. The annual Management Fees may range up to two percent (2.0%) per annum of an account's asset value as determined in accordance with the Adviser's valuation policy.

*Performance Fees.* Separate Accounts may be charged a performance fee of up to twenty percent (20%) per annum of the net profits generated by the account. The Performance Fee will generally be paid within 10 days after the date on which the account holder is invoiced.

#### Miscellaneous

The Adviser may agree with certain investors to a variation of the terms set forth in a Client's Offering Documents, including different Management Fees, Performance Allocations/performance fees, or withdrawal/redemption rights.

- B. Management Fees and Performance Allocations from the Fund are deducted directly from the capital accounts of the Fund's investors and Management Fees and on Separate Accounts upon invoice to the account holder, each as indicated in Item 5.A. above.

- C. Clients will incur brokerage and other transaction costs. Item 12 of this brochure discusses how the Adviser selects brokers and determines the reasonableness of their compensation. The direct expenses borne by each Client are described in more full detail in each Client's Offering Documents.
- D. As stated above, Fund management fees are payable monthly in advance for Fund accounts and quarterly in arrears for Separate Accounts. Investors are generally permitted to withdraw or redeem their investment in a Fund as of the close of business on the last day of any calendar quarter with 45 days prior written notice. In the event of a withdrawal or redemption, a pro rata portion of the Management Fee, based on the number of days remaining in the calendar quarter, shall be refunded by the Adviser to the Investor, minus any amounts owed to Adviser for account expenses and any reserves or holdbacks for expenses.
- E. Neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

The Adviser or its affiliates receives a performance-based fee or allocation from certain Clients. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any future clients, the Adviser has implemented policies and procedures to ensure that all clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

The Adviser manages multiple Clients with similar investment strategies on a side-by-side basis. As a result of the foregoing, the Adviser, its principal(s), and/or affiliate(s) may have conflicts of interest in: (i) allocating their time and activity among the multiple Clients; (ii) allocating investments among the multiple Clients; and (iii) effecting transactions among the multiple Clients, including ones in which the Adviser, its principal(s), and/or affiliate(s) may have a greater financial interest. These conflicts of interest may create an incentive for the Adviser to favor a Client in which the Adviser, its principal(s), and/or affiliate(s) have a greater financial interest with respect to allocation of time and activity, limited investment opportunities, or investments that the Adviser regards as more attractive or better performing investments.

To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities. These policies and procedures require the Adviser to at all times allocate investments among the Clients in a manner which it believes to be fair and equitable and prohibit the Adviser from basing an allocation decision on any of the following, or similar, reasons: (i) to generate higher fees paid by one Client over another, or to produce greater fees to the Adviser or any of its affiliates; (ii) to develop a relationship with an existing or potential investor in a Client; (iii) to compensate an investor in a Client for past services or benefits rendered to the Adviser or any employee of the Adviser; or (iv) to induce future services or benefits to be rendered to the Adviser or any employee of the Adviser.



## **Item 7 Types of Clients**

As mentioned in Item 4, the Adviser provides investment advisory services to (i) private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments and other institutions; and (ii) separate accounts including high net worth individuals, retirement plans, trusts, partnerships, corporations, or other businesses.

The minimum investment in a Fund is \$1,000,000, although the Adviser may accept investments in a lesser amount at its sole discretion. Generally, there is no stated minimum for opening an Account.

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

### **Investment Strategy Overview**

The Firm will seek to identify the most compelling long and short ideas in underfollowed therapeutic companies. Investments will be selected through top down screening and bottom up due diligence which allows for comprehensive qualitative and quantitative assessment. Specific catalysts for investments will include (among other things): clinical trial designs, statistical trial designs, regulatory decisions, product launches, prescription trends, competitive dynamics, intellectual property disputes, and distressed situations. The Firm will seek to invest where it has a competitive advantage, there is a margin of safety with a positively skewed risk/reward ratio, and a clear exit strategy defined by the catalyst and event path of the specific situation.

The Firm will primarily trade and invest in publicly-traded equity securities, but may also trade and invest in other financial instruments to the extent deemed appropriate by the Adviser, including without limitation common stocks, preferred stocks, limited partnership interests, warrants, equity derivatives, convertible securities, debt securities listed and unlisted options, shares of beneficial interest, convertible preferred obligations, rights, options, puts and calls with respect to the foregoing, and to a limited extent, commodity interests (futures, options on futures, certain swaps subject to regulation by the CFTC), other swaps and derivatives of any kind.

### **Methods of Analysis**

The Firm generates its ideas primarily from two locations: the institutional memory of the investment team and medical conferences. After an idea has been generated, the investment team conducts fundamental analysis to understand the factors, catalysts, and event path facing a stock. Once those are identified, the team begins a rigorous analysis of all available scientific and financial information on a company. This information includes, but is not limited to: breaking down the molecular structure of a drug, analyzing clinical trial designs, understanding the regulatory environment for the drug, sizing the commercial opportunity, speaking with the insurance companies that will reimburse for the drug, looking at the management of the company, and sifting through all available financial information and filings. From all that data the team then determines a risk/reward ratio for a stock given a certain investment timeline. If the ratio is appropriate, then the team will rank the conviction of the name versus the rest of the portfolio. The investment will be sized according to conviction. Once an investment is in the portfolio, the team is constantly trying to break their own thesis.

### **Risk Factors**

***An investment with the Firm will involve a substantial degree of risk and is intended and appropriate only for Investors whose sophistication and financial resources are sufficient to enable them to evaluate such an investment and to assume such risks, including the risk of complete loss of their investment. In evaluating whether to invest***

*in the Firm, prospective investors are encouraged to carefully consider the following risk factors, among others. Investors are urged to consult with their own financial, legal and tax advisors before making any decision regarding an investment in the Firm. The various risks discussed below are not the only risks associated with an investment in the Firm.*

*The statements set forth below regarding the future activity of the Firm and opportunities in the markets are forward-looking statements. The matters discussed in such statements may be affected by a number of events, including general market and economic conditions and the other factors described in this Brochure.*

### **General Economic and Regulatory Risks**

***General Economic and Market Conditions.*** The success of the Firm's activities will be affected by general economic and market conditions, such as changes in interest rates, availability of credit and debt-related issues, inflation rates, economic uncertainty, market volatility, changes in laws (including laws relating to taxation of the Firm's investments), trade barriers, unemployment rates, release of economic data, currency exchange controls and national and international political circumstances (including wars, terrorist acts, natural disasters or security operations). These factors may affect the level and volatility of securities prices and the liquidity of the Firm's investments. Volatility and/or illiquidity could impair the Firm's profitability or result in losses. The Firm could incur material losses even if the Investment Manager reacts quickly to difficult market or economic conditions, and there can be no assurance that the Firm will not suffer material losses and other adverse effects from broad and rapid changes in economic and market conditions in the future. Investors should realize that markets for the financial instruments in which the Firm seeks to invest can correlate strongly with each other at times or in ways that are difficult for the Investment Manager to predict. Even a well-analyzed approach may not protect the Firm from significant losses under certain market conditions.

***Regulatory Developments.*** The legal, tax and regulatory environment worldwide for private investment firms (such as the Firm) is evolving, and changes in the regulation of private investment firms, their managers and their trading and investing activities may have a material adverse effect on the ability of the Firm to pursue its investment program and the value of investments held by the Firm. There has been an increase in scrutiny of the alternative investment industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Firm to pursue its investment program or conduct business with brokers and other counterparties could have a material adverse effect on the Firm.

Regulations under the Dodd Frank Act have added and may continue to add costs to the legal, operational and compliance obligations of the Investment Manager and possibly the Firm and increase the amount of time that the Investment Manager spends on non-investment-related activities. The European Union ("EU") recently approved the Alternative Investment Firm Managers Directive ("AIFMD"), which seeks a common EU approach to the regulation of hedge funds and other types of alternative investment

firms. The Dodd-Frank Act, AIFMD and other regulations could cause certain investment strategies in which the Firm currently engages or may otherwise have engaged to become not viable, economically or practically. Regulations adopted under these and other regulations could have a material adverse impact on the potential of the Firm. Among other possible effects, such legislation and regulations could change the functioning of capital markets in unpredictable ways, limit the scope of the Firm's investment activities, including through limitations on short selling imposed with little or no notice, limit access to financing, increase margin or collateral requirements, limit leverage, impose position limits, require disclosure of confidential information, change applicable accounting requirements, impose new taxes or impose significant administrative burdens, which divert resources, time and attention. Consequently, the Firm may not be capable of, or successful at, preserving the value of its portfolio, generating positive investment returns or effectively managing its risks.

This Brochure cannot address or anticipate every possible current or future regulation that may affect the Firm, the Investment Manager or their respective businesses. Such regulations may have a significant impact on the Firm or the operations of the Firm, including, without limitation, restricting the types of investments the Firm may make, preventing the Firm from exercising its voting rights with regard to certain financial instruments, requiring the Firm to disclose the identity of Investors or otherwise. Prospective investors are encouraged to consult their own advisors regarding an investment in the Firm.

***Potential for Fraud.*** In spite of the Investment Manager's efforts to invest in reputable and trustworthy companies, there is a risk that the Firm may invest in issuers that engage in fraud. Instances of fraud can be particularly difficult to detect and prevent. To the extent that the Firm invests in a company that engages in fraud, the Firm could lose all or a substantial portion of its investment in such company and it could have a material adverse effect on the Firm's financial condition and results of operations.

***Terrorist Attacks, War and Natural Disasters.*** Terrorist activities, anti-terrorist efforts, armed conflicts involving the United States or its interests abroad and natural disasters may adversely affect the United States, its financial markets and global economies and could prevent the Investment Manager and the Firm from meeting their respective investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, acts of war or hostility and natural disasters have created many economic and political uncertainties in the past and may do so in the future, which may adversely affect the United States and world financial markets and the Firm for the short or long-term in ways that cannot presently be predicted.

### **Portfolio Risks**

***Investment and Trading Risks Generally.*** All investments risk the loss of capital. No guarantee or representation is made that the Firm's program will be successful. The Firm's investment program may involve, without limitation, risks associated with

limited diversification, short-selling, equity risks, distressed issuers, interest rates, commodity interest trading risk, risks associated with businesses in the health care industry, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in the Firm's activities. Certain investment techniques of the Firm may, in certain circumstances, substantially increase the impact of adverse market movements to which the Firm may be subject. In addition, the Firm's investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Firm invests its assets.

The Investment Manager's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

***Healthcare – Industry Risks.*** As noted herein, the Firm will invest in healthcare-related companies and in companies operating in the healthcare industry. Many healthcare-related companies are smaller and less seasoned than companies in other sectors. Healthcare-related companies may also be strongly affected by scientific or technological developments and their products may quickly become obsolete. Healthcare-related companies offer products and services that are subject to governmental regulation and may be adversely affected by changes in governmental policies or laws. A number of legislative proposals concerning healthcare have been considered and/or enacted by the U.S. Congress in recent years. These span a wide range of topics, including cost control, national health insurance (including the Affordable Care Act (“ACA”)), incentives for compensation in the provision of health care services, tax incentives and penalties related to health care insurance premiums, and promotion of prepaid healthcare plans. The Firm cannot predict what proposals will be enacted or what effect such proposals may have on healthcare-related companies. In addition, the ACA has helped to re-shape the healthcare industry. There are still numerous unknowns related to the ACA, and the Firm will be monitoring developments closely, paying attention to any implications on the markets. Court decisions regarding the ACA could also positively or negatively affect the healthcare industry at large.

***Limited Diversification and Risk Management Failures.*** As described herein, at any given time, the Firm's portfolio may not be diversified to any material extent and, as a result, the Firm could experience significant losses if general economic conditions, and, in particular, those relevant to the issuers whose securities are owned by the Firm, decline. In addition, the Firm's portfolio will likely become significantly concentrated in a limited number of issuers, types of financial instruments, industries, strategies or geographic regions, and such concentration of risk may increase losses suffered by the Firm. This limited diversity could expose the Firm to losses disproportionate to market movements in general. Although the Investment Manager will attempt to identify, monitor and manage certain significant risks related to specific investments, these efforts will not take all risks into account, including systematic market risk, and there can be

no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in the Investment Manager's risk management efforts could result in material losses for the Firm.

***Investment in Small- and Medium-Capitalization Companies.*** The Firm may invest domestically across all market capitalizations, including on small- and mid-cap issuers. Smaller capitalization stocks involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of small- capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small- capitalization stocks, an investment in those stocks may be highly illiquid. Some small companies have limited distribution channels and financial and managerial resources. Such companies may also be dependent on personnel (including key personnel) with limited experience.

***Investments in Undervalued Equity and Equity-Related Securities.*** The Firm may invest in what the Investment Manager believes to be undervalued equity and equity-related securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Firm's investments may not adequately compensate for the business and financial risks assumed. The Firm may make certain speculative investments in securities which the Investment Manager believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the Firm may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Firm's assets may be committed to the securities purchased, thus possibly preventing the Firm from investing in other opportunities. In addition, the Firm may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period. If the Investment Manager takes long positions in stocks that decline and short positions in stocks that increase in value, then the losses of the Firm may exceed those of other portfolios that hold long positions only.

***Equity Risks.*** The market price of securities owned by the Firm may go up or down, sometimes rapidly or unpredictably. A risk of investing in the Firm is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or the sectors in which the Firm will invest. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased

production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Investment Manager believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Investment Manager anticipates. As a result, the Firm may lose all or substantially all of its investment in any particular instance.

**Long/Short.** The identification of investment opportunities in the implementation of the Firm's long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Firm's positions were to fail to converge toward, or were to diverge further from values expected by the Investment Manager, the Firm may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Firm to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Investment Manager's long/short strategies may become outdated and inaccurate as market conditions change.

**Short Selling.** The Firm may make short sales. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, the Firm will engage in short sales only where the Investment Manager believes the value of the security will decline between the date of the sale and the date the Firm is required to return the borrowed security. The making of short sales will expose the Firm to the risk of liability for the market value of the security that is sold, which will be an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Firm at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Firm may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

**Call Options.** In certain circumstances, the Firm may trade in call options. There are significant risks associated with the sale and purchase of call options. A call option is a financial contract that gives the buyer of the contract the right, but not the obligation, to buy a security or other financial instrument from the seller (or "writer") at a specified price within a specified time period. The buyer pays a non-refundable premium to the seller for the right to exercise the call option. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in

the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

***Put Options.*** In certain circumstances, the Firm may trade in put options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

***Investments in Distressed Issuers.*** The Firm might invest in equity securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems. These securities are likely to be particularly risky investments although they also may offer the potential for high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule and otherwise continue to operate could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high, and there is no assurance that the Investment Manager will analyze such investments correctly.

***Highly Volatile Markets.*** The prices of financial instruments in which the Firm may invest can be volatile. Price movements of the financial instruments in which the Firm's assets may be invested will be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and



economic events and policies. The Firm will be subject to the risk of failure of any of the Exchanges on which its positions trade or of its clearinghouses. In addition, governments from time to time intervene in certain markets, directly, by regulation and otherwise, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

***Stock Index Options.*** In certain circumstances (for hedging purposes), the Firm might purchase and sell, call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objective or for the purpose of hedging its portfolio and managing its net exposure. A stock index or index option fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the Firm's portfolio correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Firm realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Firm of options on stock indices will be subject to the Investment Manager's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

***Derivative Instruments.*** The Firm may take advantage of opportunities with respect to certain derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Firm and legally permissible. Special risks may apply to instruments in which the Firm invests in the future that cannot be determined at this time or until such instruments are developed or invested in by the Firm. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

***Litigation.*** The Firm's investment activities may subject it to the risks of becoming involved in litigation with third parties. The expense of defending against claims against the Firm by third parties and the payment of any amounts pursuant to settlements or judgments would be borne by the Firm, reduce distributions and could require Investors to return distributed capital and earnings to the Firm.

***Non-U.S. Investments.*** The Firm may invest in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and,

from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Firm's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the

U.S. As a result, the Firm may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Firm's rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the Commodity Futures Trading Commission (the "*CFTC*") or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Firm under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

***Competition.*** The markets in which the Firm expects to participate are extremely competitive. There can be no assurance that the Investment Manager will be able to identify or successfully pursue attractive investment opportunities in this environment. Investors should expect that the Firm's investments will involve substantially more company-specific and market risk and associated volatility in the future than the risks involved in such investments in the past. The Firm will compete with many firms, some of which may have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to the Firm and the Investment Manager.

***Less Liquid Instruments.*** The Firm generally expects to make investments in publicly-traded equity securities that are generally expected to be relatively liquid. However, the Firm may invest in the securities of companies with micro- and small- capitalizations, which may be thinly traded and otherwise illiquid. In addition, the Firm may from time to time hold large positions with respect to a specific type of instrument, which may reduce the Firm's liquidity. The Firm may be unable to timely dispose of certain assets, which would adversely affect the Firm's ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force the Firm to dispose of assets at reduced prices, thereby adversely affecting the Firm's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Firm may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Firm incurs substantial trading losses, the need for liquidity could rise sharply

while its access to liquidity could be impaired. In conjunction with a market downturn, the Firm's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Firm's credit risk to them.

***Default and Credit Risks.*** The Firm and the Investment Manager will assume credit risk to their brokers, custodians and other counterparties in connection with brokerage arrangements, derivatives and other contractual relationships. In evaluating credit risk, the Firm and the Investment Manager will often be dependent upon information provided by the obligor, which may be materially inaccurate or fraudulent. Any actual default, or any circumstance that increases the possibility of such a default, could have a material adverse effect on the Firm.

***Interest Rate Risks.*** The Firm's borrowings will subject the Firm to risks associated with movements in interest rates. For example, the Firm will be required to manage both curve risk, which is the risk that the slope of the yield curve will vary from the slope assumed in the Firm's strategy, and credit spread risk, which is the risk that the spreads between yields of differently rated issuers will change in a manner that adversely affects the Firm's portfolio.

***Hedging Transactions.*** The Firm may utilize financial instruments, both for investment purposes and for risk management purposes, in order to: (i) protect against possible changes in the market value of the Firm's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Firm's unrealized gains in the value of the Firm's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Firm's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate or currency exchange rate on any of the Firm's liabilities or assets; (vii) protect against any increase in the price of any securities the Firm anticipates purchasing at a later date; or (viii) for any other reason that the Investment Manager deems appropriate.

The success of the Firm's hedging strategies will depend, in part, upon the Investment Manager's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Firm's hedging strategy will also be subject to the Investment Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Firm may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Firm than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Firm from achieving the intended hedge or expose the Firm to risk of loss. The Firm will not be required to hedge any particular risk in connection with a particular transaction or its portfolios generally. Moreover, it should be noted that the portfolio will always be exposed to certain risks

that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Firm's portfolio holdings.

### **Leverage and Liquidity Risks**

The Firm intends to borrow funds which may result in significant and/or high levels of leverage. The Firm may borrow funds from brokers, banks and other lenders to finance its investing and trading operations, which borrowings may be secured by assets of the Firm. The use of such leverage can, in certain circumstances, maximize the losses to which the Firm's investment portfolio may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that a particular asset or the Firm as a whole is leveraged. The cumulative effect of the use of leverage by the Firm in a market that moves adversely to the Firm's investments could result in a substantial loss to the Firm, which would be greater than if the Firm was not leveraged. Leverage may be achieved through, among other methods, direct borrowing and purchases of securities on margin and the use of options and other derivatives.

The use of margin and short-term borrowings will create several risks for the Firm. If the value of the Firm's securities falls below the margin level required by a prime broker, additional margin deposits would be required. If the Firm is unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the Firm's position in some or all of the financial instruments that are in the Firm's accounts at the prime broker and cause the Firm to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by the Firm. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Firm may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross-defaults under the Firm's agreements with other brokers, lenders, clearing firms or other counterparties, creating or increasing a material adverse effect on the performance of the Firm.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Firm. In addition, the Firm will have unlimited discretion to use derivative instruments, which generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment.

### **Counterparty Risks**

The Firm expects to establish relationships to obtain prime brokerage services and other services, all of which permit the Firm to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Firm will be able to maintain

such relationships or establish such relationships in the future. An inability to establish or maintain such relationships would limit the Firm's trading activities and could create losses, preclude the Firm from engaging in certain transactions, financing and prime brokerage services and prevent the Firm from trading at optimal rates and terms. Moreover, a disruption in the financing and prime brokerage services provided by any such relationships before the Firm establishes additional relationships could have a significant impact on the Firm's business due to the Firm's reliance on such counterparties.

Some of the markets in which the Firm may affect its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Firm to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing the Firm to suffer a loss. In addition, in the case of a default, the Firm could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where the Firm has concentrated its transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of the Firm's counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Firm's counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of the Firm's securities and other assets from the Firm's prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

The Firm may use counterparties located in jurisdictions outside the United States. Such counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Firm's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Firm and its assets.

The Firm is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Investment Manager's internal process for evaluating the creditworthiness of its counterparties may prove insufficient. The ability of the Firm to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of the Firm's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Firm.

### **Operational and Regulatory Risks**

**General Operational Risks.** The volume and complexity of the Firm's transactions may place substantial burdens on the Investment Manager's operational systems and resources, including those related to trade entry and execution, position reconciliation, corporate actions, collateral and margin maintenance, marking procedures, finance, accounting, profit and loss reporting, internal management and risk reporting and funds transfers. Human error (including, without limitation, trading errors), system failure or other problems with any of these processes could result in material losses or costs, which will generally be borne by the Firm.

**Execution Risks.** The Firm's trading strategy will depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by the Investment Manager. Should the Firm's trading orders and investment decisions not be executed in a timely and efficient manner, the Firm might be able to acquire only some, but not all, of the components of such position, or if the overall position were to need adjustment, the Firm might not be able to make such adjustment. In such an event, the Firm would not be able to achieve the market position selected by the Investment Manager and might incur a loss in liquidating its position.

**Valuation Risks and ASC 820.** Although the Firm will attempt to mark the Firm's portfolio to fair value, substantial uncertainty and subjectivity will often exist, particularly for illiquid investments, and even the Adviser's best judgment as to fair value may not accurately reflect the prices at which the Firm could actually purchase or sell such assets. The Adviser will determine the fair value of many investments based on a variety of valuation methodologies, which depend on a variety of inherently unreliable estimates and assumptions. The methodologies applied to particular assets or types of assets may vary from case to case and over time depending on a range of factors. A failure to properly value the Firm's assets could have a material adverse effect on the returns earned by Investors. Many assets are subject to rapid changes in value caused by sudden company-specific or industry-wide developments. For certain illiquid investments, long periods of time may pass during which the Adviser will have no basis upon which to change the reported value of the investment, with the result that large price movements could occur suddenly when information does become available or an investment is liquidated. Performance Allocations will be calculated based on unrealized gains, on the basis of an estimate of fair value, which could be inaccurate. All values assigned to assets and liabilities by the Adviser generally will be conclusive and binding on the Firm and all Investors.

For purposes of calculating the Firm's net asset value, the Firm's assets and liabilities will be valued as described under "Net Asset Valuations." The Firm's annual audited financial statements will be prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Specifically, for purposes of GAAP-compliant financial reporting, the Firm will be required to follow a specific framework for measuring the fair value of its assets and liabilities and will be required to provide certain additional disclosures regarding the use of fair value measurements in its audited financial statements. Financial Accounting Standards Board ("FASB") Codification ("ASC") 820 defines and establishes a framework for measuring fair value under GAAP

and expands financial statement disclosure requirements relating to fair value measurements. Other valuation- related requirements are contained in other provisions of GAAP and other sections of the codification. Additional FASB Accounting Codification Standards and updates and additional provisions of GAAP that may be adopted in the future may also impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP-compliant financial reporting.

The Adviser believes that the requirements of GAAP, including ASC 820, are consistent with the valuation methodology described below for purposes of calculating net asset value. If, however, the Adviser determines, acting in good faith and on a reasonable basis, that the valuation methodology required under GAAP does not properly reflect the actual fair value of an asset or liability, the Adviser may adjust the value of such asset or liability for purposes of calculating net asset value as it deems necessary to properly reflect fair value, even if such adjustment is inconsistent with GAAP. In such event, the Firm's assets and liabilities will be valued (i) in accordance with GAAP, solely for purposes of preparing the Firm's GAAP-compliant annual audited financial statements and (ii) in accordance with the valuation policies set forth herein (without regard to any inconsistent GAAP requirements), for all other purposes, including without limitation for purposes of calculating net asset value, which, as described herein, is relevant to the calculation of the Management Fee and the Performance Allocation and the amounts payable by the Firm and the Investors in respect of a withdrawal by an Investor.

In order to value the assets and liabilities of the Firm, the Firm, its affiliates and the Administrator may rely on information provided by the Adviser or employees of the Adviser, its affiliates, or other outside parties, and such persons may provide inaccurate, incomplete, outdated or otherwise unreliable information. In the case of employees who receive compensation based on the performance of certain investments, such employees may be motivated to provide incorrect valuation information in order to receive inflated or increased compensation. The Firm may be unable to detect every error contained in the valuation information. To the extent the information received by the Firm is inaccurate or unreliable, the valuation of the Firm's assets and liabilities may be inaccurate.

***Internal Controls and Employee Misconduct.*** The Investment Manager expects to adopt supervisory guidelines and other controls with the intention of detecting and preventing unauthorized trading, the misappropriation of the Firm's property and other misconduct and violations of law by employees of the Investment Manager and other agents of the Firm. There can be no assurance, however, that such procedures and controls will be effective. Any violation of such procedures and controls, including acts of fraud and dishonesty by employees or agents of the Investment Manager, or even unsubstantiated allegations of such misconduct, could result in material losses or costs, which will generally be borne by the Firm.

***Regulatory and Legal Matters.*** In the course of its investment activities on behalf of the Firm, the Investment Manager may employ unusual or novel investment strategies, securities, financing structures, contractual arrangements and other techniques, both in the

United States and in many other countries. The use of these techniques, as well as more ordinary techniques employed on behalf of the Firm, frequently may give rise to circumstances in which it is difficult or impossible to identify and apply governing laws and regulations (including those relating to securities, trading and tax issues, among others) to the Firm's specific activities with any certainty. Although the Investment Manager will strive to comply with all applicable laws and regulations, there can be no certainty that this objective will be achieved. Even an inadvertent violation or an alleged violation of applicable laws or regulations could impose significant costs on the Firm, including disgorgement of profits, penalties, settlement payments, loss of necessary licenses, restrictions on future activities, adverse publicity and otherwise. Such costs generally will be borne by the Firm, even if they result from the negligence of the Investment Manager (but generally not if resulting from the fraud, bad faith, willful misconduct or gross negligence of the Investment Manager). Furthermore, at the time the Firm bears such costs, the composition of the Investors will likely be different than it was at the time of the violation giving rise to such costs. There generally will be no mechanism by which the Firm may recapture such costs from, or otherwise allocate such costs to, withdrawn Investors. As a result, the Investors at the time such costs are paid would bear a disproportionate share of such costs.

The Firm and its affiliates may in the future be named as defendants in civil litigation related to their investment management activities or investments. The expenses of defending against claims and paying any amounts pursuant to settlements or judgments generally will be borne by the Firm, and its respective affiliates generally will be indemnified by the Firm in connection with any such litigation, subject to certain conditions. Litigation could also be a distraction for the Investment Manager's personnel and, if adversely decided, could result in costs that would make it difficult for the Investment Manager to attract and retain key personnel or otherwise achieve its objective.

***Restrictions on Trading and Position Limits.*** In connection with the Investment Manager's activities, the Investment Manager may acquire confidential information or otherwise become restricted in its investment activities. For example, this occurs in connection with evaluating new investments, serving on the board of directors of issuers or serving on creditors' committees. In such event, the Investment Manager may not be free to act upon such confidential information in the course of performing its duties for the Firm, and the Investment Manager may not be able to initiate a transaction for the Firm that it otherwise might have initiated, with the result being that the Firm is unable to purchase or dispose of a position. Such restrictions would apply even if the Firm were not involved in, and could not have benefited from, the receipt of such information or the imposition of such other restriction.

Position limits and ownership thresholds imposed by various regulations may also limit the Firm's ability to effect desired trades. Position limits include maximum amounts of net long or net short positions that any one person or entity may own or control in a particular financial instrument. Other ownership thresholds include reporting requirements, volume limitations, short-swing profit rules, mandatory tender offer



requirements, poison pill provisions and other regulatory or contractual requirements that make it illegal or undesirable to exceed a certain threshold of ownership in a particular issuer. In general, all positions owned or controlled by the same person or entity, even if in different accounts, will be aggregated for purposes of determining whether the applicable position limits or ownership thresholds have been exceeded. Thus, even if the Firm itself does not intend to exceed the applicable limits, it is possible that different accounts managed by the Investment Manager may be aggregated. If at any time positions managed by the Investment Manager were to exceed the applicable limits, the Investment Manager could be required to liquidate positions, which might include positions of the Firm, to the extent necessary to come within those limits. Further, to avoid exceeding the applicable limits, the Firm may have to forego or modify certain of their contemplated trades.

***Absence of Regulatory Oversight.*** While the Firm may be considered similar to an investment company, the Firm does not expect to register as such under the Company Act, and, accordingly, the provisions of that act (which, among other matters, require investment companies to have a majority of disinterested directors and regulate the relationship between the adviser and the investment company) generally will not be applicable to the Firm.

### **Risks Relating to Firm Terms and Structure**

***No Operating History.*** The Firm is a newly formed entity that has a limited or no operating or performance history which prospective investors can review in connection with an investment in the Firm. Past performance of the Principals and their affiliates is not necessarily indicative of the future performance or profitability of the Firm or an investment therein. The Firm's investment program should be evaluated on the basis that there can be no assurance that the Investment Manager's assessment of the short- term or long-term prospects of investments will prove accurate or that the Firm will achieve its investment objective.

***Incomplete Information.*** An Investor generally will not have sufficient information to analyze or evaluate the risks or potential returns of the Firm's investment program currently or prospectively. In general, the Investment Manager does not expect to provide current or detailed information about the Firm's portfolio or any advance notice to Investors of anticipated changes in the composition of the Firm's portfolio, nor will the Investment Manager provide information to Investors as to how the Investment Manager voted proxies for specific securities owned by the Firm. However, in response to questions and requests and in connection with due diligence meetings and other communications, the Firm or the Investment Manager may provide additional information regarding the Firm and its investments to certain Investors that is not distributed to other Investors, and such information may affect an Investor's decision to request a withdrawal (or invest additional amounts in the Firm). Each Investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions, including whether to invest in the Firm, and each Investor must

decide for itself whether the limited information provided by the Investment Manager and the Firm is sufficient for its needs.

***Withdrawals.*** An investment in a pooled investment vehicle will provide limited liquidity since the Interests will not be freely transferable and an Investor generally will have only the limited right or ability to withdraw amounts from a Capital Account maintained on its behalf in accordance with the terms of a Partnership Agreement. For example, if the Withdrawal Date is less than twelve (12) months after a Capital Account was established, an Investor generally will be required to pay a Withdrawal Fee to the Firm.

The Firm may also suspend the withdrawal or distribution rights of Investors (or the payment of withdrawal or distribution proceeds) under certain circumstances. Withdrawals will also be subject to the Withdrawal Gate. An investment in the Firm will be appropriate only for sophisticated investors who do not require immediate liquidity for their investment.

***In-Kind Distributions.*** Although the Adviser generally expects that all distributions will be made in cash, a withdrawing Investor may, at the discretion of the Firm or its affiliates, receive financial instruments owned by the Firm in lieu of, or in combination with, cash; *provided* that the Firm may make a distribution in-kind only to the extent that the Firm is unable, by operation of law, to liquidate and obtain cash for such securities. Such distributions may include interests in one or more trading vehicles or special purpose vehicles holding financial instruments owned by the Firm or participations therein. To the extent a withdrawing Investor is distributed interests in one or more trading vehicles or special purpose vehicles, such withdrawing Investor will continue to be at risk of the Firm's business (including its credit risk) until all such financial instruments are sold. The value of an in-kind distribution may increase or decrease after the distribution is made and before the security is sold either by the withdrawing Investor, if received directly, or by the Investment Manager or its affiliates, if held through a trading vehicle or special purpose vehicle. In either case, the withdrawing Investor will incur transaction costs in connection with the sale of any such instruments and, in the case of interests in trading vehicles or special purpose vehicles, will bear a proportionate share of the operating and other expenses borne by such vehicle. Instruments distributed in-kind may not be readily marketable. The risk of loss and delay in liquidating these financial instruments will be borne by the Investor, with the result that such Investor may ultimately receive less cash than it would have received on the date of withdrawal if it had been paid in cash. Furthermore, to the extent that a withdrawing Investor receives interests in one or more trading vehicles or special purpose vehicles, such withdrawing Investor generally will have no control over when and at what price the financial instruments in which such vehicles have an interest are sold.

The Firm or its affiliates will determine the percentage of any distribution to be made in cash and the percentage to be made in-kind, as well as the particular securities, if any, to be distributed. A prior or contemporaneous in-kind distribution to some Investors will not affect the Firm's right to distribute cash to Investors. Distributions that are made in-

kind will represent no more than a *pro rata* portion of the portfolio as of the Withdrawal Date.

***Reliance on the Investment Manager.*** The success of the Firm's investments will be dependent upon the abilities and retention of the Principals. The Principals will have exclusive responsibility for all investment decisions made by the Investment Manager with respect to the Firm. In particular, if any of the Principals ceases to be involved, directly or indirectly, in the Investment Manager and the management of the Firm or its portfolio, the business of the Firm would likely be adversely affected.

While the Investment Manager and its affiliates will devote as much time to the Firm's affairs as they deem necessary and appropriate, they generally will not be precluded from engaging in outside activities. The Investment Manager and its affiliates generally may engage and hold interests in other business ventures and activities of every kind and description for their own account including, without limitation, other investment entities similar to the Firm and/or other investment advisory entities similar to the Investment Manager.

***Conflicts of Interest.*** Various actual and potential conflicts of interest exist (and may exist) among the Firm, Mr. Shahrestani, Mr. Westcott, and their affiliates, including actual and potential conflicts of interest related to fees, portfolio composition and valuation, expense allocation, selection of counterparties and best execution, treatment of other Investors, limitation of liability, indemnification, and outside business activities and personal trading. During the Firm's term, many additional and different types of conflicts of interest may arise and this Brochure does not purport to identify all such conflicts. Investors ultimately will be heavily dependent upon the good faith of the Adviser and each of its respective affiliates.

***Compensation Arrangements.*** The Firm or its affiliates, as applicable, generally will be entitled to receive Management Fees and/or the Performance Allocation. Management Fees, which will be paid without regard to the Firm's performance, could motivate the Investment Manager to gather more assets than it can manage effectively, thereby diluting returns to Investors. The Performance Allocation could motivate the Adviser or its affiliates, to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, because the Performance Allocation will be calculated on a basis that includes unrealized appreciation of the Firm's assets, it may be greater than if such allocation were based solely on realized gains.

***Side Letters.*** The Firm may from time to time in the future enter into letter agreements or other similar agreements (collectively, "***Side Letters***") with one or more Investors, including, without limitation, any related Investor and other selected third parties, that alter, modify or change the terms of the Interests held by such Investors. Side Letters may provide such Investor(s) with additional and/or different rights (including, without limitation, the Performance Allocation, Management Fees, withdrawal rights,

Capital Contribution amounts, informational rights, capacity rights and other rights) than the other Investors. For example, a Side Letter may permit an Investor to withdraw Interests on less notice and/or at different times than other Investors. Except to the extent required by applicable law, the Firm is not required to notify any or all of the other Investors of any such Side Letters or any of the rights and/or terms or provisions thereof, nor is the Firm required to offer such additional and/or different rights and/or terms to any or all of the other Investors.

***Limitation of Liability and Indemnification.*** Certain exculpation and indemnification provisions will be contained in client agreements and other applicable documents. As a result of these provisions, the Firm and its respective affiliates and personnel will generally not be liable to the clients for any act or omission (including employee negligence and similar human errors), absent fraud, bad faith, willful misconduct or gross negligence, and clients will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Firm, absent fraud, bad faith, willful misconduct or gross negligence. **These are important provisions that could materially affect an Investor's rights in the Firm. Investors having any questions or concerns about these provisions should seek advice from qualified counsel.**

***Restrictions on Transferability.*** Each Investor in a private fund will be required to represent that it is acquiring Interests for investment purposes only and not with a view to distribution or resale; that it understands that it must bear the economic risk of an investment for an indefinite period of time because the Interests have not been registered with the SEC, CFTC or any other state or governmental agency; and that it understands Interests cannot be sold unless an exemption from such registration is available. In addition, transfers of Interests require, among other things, the prior written consent of a fund's General Partner, which consent may be withheld in the General Partner's discretion and may include such terms and conditions as the General Partner deems appropriate. There will be no independent market for Interests, and none is expected to develop. Consequently, the Interests should be considered only as a long-term and illiquid investment and is suitable only for sophisticated Investors.

***Effect of Withdrawals.*** A significant withdrawal of capital from the Firm may cause a temporary imbalance in the Firm's portfolio which may adversely affect the remaining Investors.

***Business and Regulatory Risks of Private Funds.*** The financial services industry generally, and the activities of private funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Firm's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on the Investment Manager, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert the Investment Manager's time, attention and resources from portfolio management activities.

Securities and credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Additionally, because of recent turmoil in the credit markets, the regulation of the markets in which the Firm may participate is increasing and subject to modification by government and judicial actions. The effects of any changes in law or interpretations of existing laws on the Firm could be substantial and adverse.

The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Firm to pursue its investment strategy and the value of investments held by the Firm. There has recently been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. Specifically, the Dodd-Frank Act and other related statutes and regulations may impose significant regulatory, reporting and recordkeeping requirements on advisers to private investment firms, including the Investment Manager.

***Lack of Management Control.*** With limited exceptions, Investors will have extremely limited rights to participate in the decisions made by the Firm, or otherwise participate in the affairs of the Firm.

***Liability for Return of Distributions.*** Under Delaware law, any Investor that receives a distribution that such Investor knows leaves the Firm insolvent may be liable to return such distribution. In addition, an Investor may be liable under applicable U.S. federal and state bankruptcy laws to return a distribution made during the Firm's insolvency.

#### **Risks Relating to Admission of Benefit Plan Investors**

The Firm intends limit investments by Benefit Plan Investors (as defined below) so that the assets of the Firm will not be deemed to constitute "plan assets" for purposes of ERISA and/or Section 4975 of the Code. If, however, the Firm were deemed to hold "plan assets" of Benefit Plan Investors, (a) ERISA's fiduciary standards could apply to the Firm, which could materially affect the operations of the Firm, and (b) any transaction with the Firm and certain persons could constitute a prohibited transaction under ERISA and/or Section 4975 of the Code, unless an exemption applies.

***THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FIRM. INVESTORS SHOULD READ EACH OF THE OFFERING DOCUMENTS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS. INVESTORS ARE ALSO URGED TO CONSULT WITH THEIR OWN LEGAL AND TAX ADVISORS BEFORE MAKING ANY INVESTMENT DECISIONS. IN ADDITION, AS THE FIRM'S INVESTMENT PROGRAM DEVELOPS AND***

***CHANGES OVER TIME, AN INVESTMENT IN THE FIRM MAY BE SUBJECT TO ADDITIONAL AND DIFFERENT RISK FACTORS.***

**CONFLICTS OF INTEREST**

**General**

Various actual and potential conflicts of interest will exist among the Adviser and its respective affiliates, on the one hand, and the Investors, on the other hand. The Firm will attempt to handle these and other conflicts of interest in a manner that it deems to be fair and equitable under the circumstances, but there can be no assurance that it will be successful in this attempt, and the result in any particular case may be materially disadvantageous to the Firm or the Investors. In any event, prospective investors should be aware of the conflicting interests and incentives faced by the Firm, its affiliates and personnel and the possibility that such interests and incentives could affect behavior, consciously or unconsciously. The Firm and its affiliates may face other actual or potential conflicts of interest in addition to those set forth below.

***There can be no assurance that the Firm or its affiliates will be able to resolve all conflicts in a manner that is favorable to the Firm or the Investors. By acquiring an Interest, each Investor acknowledges and represents that it has carefully reviewed the conflicts set forth herein and understands and consents to the existence of actual or potential conflicts of interest relating to the Firm and its affiliates, including, without limitation, those described below, and to the operation of the Firm subject to such conflicts.***

**Compensation Conflicts**

The Adviser will face actual and potential conflicts of interest in achieving the Firm's investment objective. The Management Fee, which will be payable without regard to the Firm's performance, could motivate the Adviser to gather more assets than it can manage effectively, thereby diluting returns to Investors. The Performance Allocation could motivate the Adviser, to make investment decisions that are riskier or more speculative than would be the case if such arrangements were not in effect. Individual employees of the Adviser or its affiliates who are compensated to some extent based upon trading profits for which they are responsible will face the same potential conflict. In addition, because the Performance Allocation will be calculated on a basis that includes unrealized appreciation in the Firm's portfolio, it may be greater than if such an allocation was based solely on realized gains.

**Valuation**

Because the Performance Allocation will be calculated on a basis that includes unrealized appreciation in the Firm's portfolio based upon values assigned by the Adviser or its affiliate, the Adviser, due to its affiliations with related entities, will face a conflict of interest in valuing the Firm's portfolio. The Adviser or its affiliates will be involved in

valuing the Firm's investments and determining the Firm's net asset value, and this process will involve substantial discretion and subjectivity, particularly in the case of illiquid investments. Even the Adviser's best judgment as to fair value may not accurately reflect the prices at which the Firm could actually purchase or sell certain assets. The valuation of the Firm's assets will also impact the Management Fees payable to the Investment Manager.

### **Expense Allocation**

Certain fees and expenses incurred by the Adviser or its affiliates will be charged and allocated to client accounts. The Adviser will face a conflict of interest in determining whether to allocate a particular expense to a client account or the Adviser and its affiliates.

### **Treatment of Other Investors; Side Letters**

The Firm may enter into side letters or similar agreements or arrangements with certain Investors in pooled investment vehicles. Among other things, these agreements or arrangements may entitle certain Investors to specific reports or notice of specified events, including reports listing positions and related risk statistics at a level of detail or frequency not provided to other Investors.

### **Selection of Counterparties and Best Execution**

Actual and potential conflicts of interest exist in connection with the Investment Manager's selection of brokerage, custodial and financing arrangements on behalf of the Firm, including those arising from investor relationships, capital introduction services, gifts, entertainment and family and personal relationships.

### **Limitation of Liability and Indemnification**

Pursuant to various exculpation and indemnification provisions in client agreements, the Adviser and its affiliates and personnel will generally not be liable to the Investors for any act or omission, absent bad faith, willful misconduct, gross negligence or fraud, and the Investors will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Investors absent willful misconduct, gross negligence, bad faith or fraud. As a result of these provisions, the Firm and its affiliates generally will be responsible for losses resulting from human errors, even when such losses result from the Adviser's and its affiliates' negligence, subject to the limitations set forth above. **These limitations on liability and indemnification provisions set forth in the foregoing agreements will not be construed to relieve any indemnified party of any liability to the extent that such liability may not be waived, modified or limited under applicable law (including liability under U.S. federal securities laws which, under certain circumstances, impose liability even on persons acting in good faith).**

### **Other Activities of the Firm and its Affiliates**

None of the Firm, its affiliates, or the Principals will be required to devote all or any specific amount of their respective time to the Firm, and their respective activities outside of the Firm may require a substantial amount of time. The Firm, its affiliates, and the Principals may also engage in other activities in the future and such other activities may result in actual or potential conflicts of interest.

The Firm, its affiliates, the Principals and other employees may purchase or sell for their own account financial instruments that are recommended to, or purchased or sold on behalf of, the Firm's clients. In addition, the Firm, its affiliates, the Principals and other employees may purchase or sell financial instruments for the Firm while selling or purchasing the same financial instruments on behalf of other clients. The Firm generally will not provide disclosure to clients when the other employees or their respective affiliates purchase or sell for their own account financial instruments that are recommended to, or purchased or sold on behalf of other clients.

### **Allocation of Investment Opportunities**

The Investment Manager may establish and operate additional investment funds or enter into other investment advisory relationships with other clients in the future (including clients who are also Investors in the Firm), and such other funds or clients may be allocated all or part of investment opportunities that would also be appropriate for the Firm's current client. The Investment Manager and its affiliates may have differing financial interests, direct or indirect, in the performance of the Firm's clients. As a result, the Investment Manager may have an incentive to favor other clients with regard to the allocation of opportunities or participation in particular investments and with regard to the terms of any transactions among clients. The Investment Manager also may face conflicts between the interests of a fund and the interests of other clients and between the interests of different groups of Investors in the Firm.



## **Item 9 Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of adviser's management.

There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory services or the integrity of management.

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

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. The General Partner of the Fund is an affiliate of the Adviser. Since the General Partner is entitled to receive the Performance Allocation from the Fund, this may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted in Item 11, the Adviser has adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser is required to make investment decisions for its Clients in a manner that is consistent with its fiduciary duties to its Clients.

The Adviser has no other relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to its Clients.

- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

- A. The Adviser has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Investment Advisers Act of 1940 and similar Texas state regulations (the “Code”). The Code sets forth a standard of business conduct and compliance with federal and Texas securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser prohibits personal trading on certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an IPO or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

From time to time, the Adviser may have access to non-public information relating to public companies, as part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non- public information, and, therefore, may not trade on the basis of that information.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

- B. An affiliate of the Adviser serves as the General Partner the Fund, which issues partnership interests to third party investors. Other than with respect to this structure, neither the Adviser nor any of its related persons recommend to Clients or buy or sell for Clients, investments in which the Adviser or any related persons have a material financial interest.
- C. The Principals have made capital commitments to the Fund. Such amount may be invested pro rata with the limited partners of the Fund in all Fund portfolio investments. In the view of the Principals, this aligns the interests of the Principals with the Fund and its investors and does not result in any conflicts of interest between the Adviser and the Fund.
- D. Subject to the requirements of the Code, the Adviser and any related person may recommend investments to Clients, or make investments for Clients, at or about the same time that the Adviser or its related persons buys or sells the same investments for their own account.

## Item 12

### Brokerage Practices

- A. The Adviser has complete discretion to determine, subject to each Client's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries use in effecting the transactions for Clients, and the commission rates to be paid for such transactions.

*Brokerage.* The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of its Clients. The Adviser seeks to obtain "best execution" from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause a Client to enter into arrangements pursuant to which the Client pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by a Client may be cleared through, and the Client's investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser's agreement with each Client, the Adviser generally will use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of Client referrals when selecting broker-dealers to execute transactions.

The Adviser does not permit clients to direct brokerage to a specified broker-dealer. All brokerage transactions will be executed through the broker-dealers selected by the Adviser.

*Soft Dollars.* The Adviser or its affiliates may receive from a Client's broker-dealers products and services in addition to brokerage services.

A portion of the commissions generated on a Client's brokerage transactions may generate "soft dollar" credits that the Adviser is authorized to use to pay for research and other non-research related services and products used by the Adviser or its affiliates. The Adviser may enter into "soft dollar" arrangements with one or more broker-dealers whereby the Adviser will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although the Adviser will use the research and services in making investment decisions for the applicable Client, the Adviser may use such research or services for other Clients and the applicable Client will generally pay more than the lowest available commissions for execution of these transactions. The Adviser may also enter into "soft dollar" arrangements to cover Client expenses or costs and expenses of the Adviser to the extent such arrangements are permitted by law.

The Adviser has authority to use "soft dollar" credits generated by a Client's securities transactions to pay for expenses that might otherwise have been borne by

the Adviser. This may give the Adviser an incentive to select brokers or dealers for Client transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Clients.

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

The term “soft dollars” refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the Adviser and its Clients, because a Client may pay for such products and services that are not exclusively for the benefit of the Client and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including management fees paid by a Client), the Adviser’s use of “soft-dollars” would tend to increase the Adviser’s profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for its Clients. Certain of the Clients’ Offering Documents, including the Fund’s Offering Documents, specifically authorize these practices to the fullest extent permitted by law.

- B. In general (and when applicable), the Adviser attempts to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for its Clients.

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

The term “soft dollars” refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the Adviser and its Clients, because a Client may pay for such products and services that are not exclusively for the benefit of the Client and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including management fees paid by a Client), the Adviser's use of "soft-dollars" would tend to increase the Adviser's profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for its Clients. Certain of the Clients' Offering Documents, including the Fund's Offering Documents, specifically authorize these practices to the fullest extent permitted by law.

- C. In general (and when applicable), the Adviser attempts to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for its Clients.

**Item 13****Review of Accounts**

Portfolio managers and other investment professionals review each investment portfolio on a regular basis to ensure that investments are made in conformity with stated objectives and guidelines. Trades for client accounts are reviewed after execution by portfolio managers for accuracy and appropriateness.

Portfolios are reviewed on a daily basis by the Firm's traders and formally reviewed monthly. The members of the investment team are in a continuous research mode, and should any circumstance change with regards to a particular holding, will report on this to the broader team, regardless of where the firm is relative to the formal monthly review cycle.

Generally, a portfolio manager will meet or communicate with clients quarterly or as frequent as the client requests, to review objectives, holdings, and portfolio performance, the economics of the period and the Adviser's outlook, among others matters.

Clients receive monthly account statements from qualified custodians listing transactional and holdings information.

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

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Fund.
- B. Neither the Adviser nor a related person of the Adviser directly or indirectly compensates any person who is not a supervised person for client referrals. The Adviser acknowledges that any supervised person of the Adviser who is a Solicitor as that term is defined in the Texas State Securities Board Rule 116.1(a)(9) must be qualified and registered with the Texas State Securities Board.



**Item 15****Custody**

The Adviser is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Fund by virtue of the common control of the Adviser and the General Partner of the Fund. All assets and securities of the Fund are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

**Item 16****Investment Discretion**

The Adviser exercises discretion in managing the investments of the Clients based on the Clients' investment objectives, policies, and strategies disclosed in the Governing Documents.

The Adviser contractually assumes discretionary authority over the Clients' assets under an investment management agreement entered into among the Adviser and the Clients.

**Item 17****Voting Client Securities**

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Client, are voted to further the best interest of that Client. The policy establishes a mechanism to address any conflicts of interests between the Adviser and its Clients. Further, the policy establishes how a Client's underlying investors may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of its Clients and their investors and is consistent with the investment philosophy as set forth in the relevant Client Offering Documents.

If a proxy vote creates a material conflict between the interests of the Adviser and a Client, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Client's best interest and was not the product of the conflict.

The Adviser maintains records of (i) all proxy votes that are made on behalf of its Clients; (ii) all written requests from each Client's underlying investors regarding voting history; and (iii) all responses (written and oral) to investors' requests. Such records are available to each Client's underlying investors upon request.

**Item 18****Financial Information**

- A. The Adviser does not require or solicit prepayment of more than \$1,200, six months or more in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Fund.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.