

Part 2A of Form ADV: Firm Brochure

Item 1 – Cover Page

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This Brochure provides information about the qualifications and business practices of Phase 3 Capital Management LLC (“Phase 3” or the “Adviser”). If you have any questions about the contents of this Brochure, please contact Eric White, Chief Compliance Officer, at 312-858-3806 or by email at ewhite@p3cm.com. 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, and references in this Brochure to Phase 3 as a “registered investment adviser” are not intended to imply a certain level of skill or training.

Additional information about Phase 3 is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure updates Phase 3's previous filing of the Brochure in March 2020. Item 4 has been updated to include information related to the terms and conditions of side letters and other agreements or arrangements Phase 3 may enter into with underlying investors of its private fund clients.

In the future, when Phase 3 amends its Brochure for our annual update, and the amended version contains material changes from the last annual update, Phase 3 will identify those changes either on this page or as a separate document accompanying the Brochure.

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Item 4 – Advisory Business

- A. Phase 3 is a Delaware limited Liability company formed in March 2018 for the purpose of providing investment advisory services to institutional clients, pooled investment vehicles, and private funds (hereinafter referred to collectively as “Clients” or “Client”). Phase 3 is wholly owned by Phase 3 Holdings LP, which is majority owned by Ethan Youderian.
- B. Phase 3 is typically granted broad and flexible investment discretion with respect to its advisory Clients. Phase 3’s principal investment objective is to achieve attractive risk adjusted returns, primarily by employing relative value, directional, fundamental, volatility and event-driven strategies in pursuit of investment opportunities.
- C. Phase 3 manages investments for Clients in accordance with the investment objectives, strategies, guidelines, and terms and conditions, outlined in each Client’s applicable investment management agreement, confidential private placement memorandum or equivalent governing document (“Offering Document”). Phase 3 does not, however, provide individualized investment advice or tailor its advisory services to the individual needs of investors in the private funds to which it provides investment advisory services. Nonetheless, Phase 3 may enter into side letters and other agreements and arrangements with certain investors that may provide terms and conditions that are more advantageous than or alter or supplement those set forth in a fund’s Offering Document. Such terms and conditions can include, without limitation, special rights to make future investments in a fund or other investment vehicles or accounts managed by Phase 3, different transparency and/or reporting rights, different withdrawal/redemptions rights and/or different fee terms. Phase 3 also performs advisory services for Clients that are pooled investment vehicles treated as separately managed accounts and such services are individually tailored to such Clients.
- D. Phase 3 does not participate in wrap-fee programs.
- E. Phase 3 manages \$1,015,167,000 on a discretionary basis as of January 31, 2021.

Investors in private funds managed by Phase 3 (a “Fund”, the “Funds” or “Clients”) should review not only this brochure but also the full contents of the Offering Document or similar document for any Fund in which they are considering investing. This brochure is intended to be a general summary of advisory services provided by Phase 3 to its general Client base. This brochure may be both supplemented and superseded by the Offering Documents for any Fund.

Item 5 – Fees and Compensation

Phase 3 may receive a series of different types of fees from Clients. A Client’s fees are dependent upon the individually negotiated investment management agreements for each. Fees may vary between or among Clients and between or among share classes within a single Fund Client. Some of the types of fees that may be earned by Phase 3 include compensation in the form a reimbursement for its operating expenses, management fees based upon a percentage of assets under management, and fees based upon capital gains of client accounts (also referred to as performance fees).

While fee collection mechanisms may vary, in general, the typical fee collection mechanisms for Clients will involve management fees charged quarterly in advance and performance fees paid annually in arrears. Expense pass through arrangements will typically be managed via a Phase 3 payment and reimbursement system with the Clients.

Investment management agreements between Phase 3 and Clients may also include provisions pursuant to which the Clients are responsible for their own operating expenses. For example, Fund Clients may be responsible for their own audit, fund administration, tax, legal and regulatory expenses. These arrangements will typically be presented in greater detail in the Offering Document or similar governing document for each Fund or in the investment management agreements for managed account clients.

At this time neither Phase 3, nor any of its supervised persons, accept compensation for the sale of securities or other investment products.

Item 6 – Performance-Based Fees and Side-by-Side Management

Phase 3 may charge performance-based fees to its Clients as discussed in Item 5. Please refer to Item 5 for a description of performance-based fees charged by Phase 3.

Performance-based fee arrangements may vary between or among the Clients of any adviser. Phase 3 fees may vary between or among Clients, or between or among share classes within the same Fund Client. Any variance in performance-based fee arrangements may create the incentive for an adviser to allocate its highest performing investments to the Clients from whom it receives the largest fee.

Should this fee variance arise between or among the Clients of Phase 3, Phase 3 will attempt to mitigate such a potential conflict via its trade allocation policies and the testing of such policies to ensure fair and equitable trade allocations.

Item 7 – Types of Clients

Phase 3 may provide advisory services to institutional investors via a managed account arrangement or to private fund Clients. Phase 3 will tailor its investment objectives to specific Clients. Such investment objectives, fee arrangements and terms will be individually negotiated. Any such separately managed account relationships are generally also subject to significant account minimums. Phase 3 may also provide investment advisory services to additional private fund clients, or other types of institutional clients in the future. Phase 3 does not tailor its investment advice to the individual investors of private fund Clients.

Item 8 – Methods of Analysis Investment Strategies and Risk of Loss

INVESTMENTS MANAGED BY PHASE 3 MAY BE DEEMED TO BE HIGHLY SPECULATIVE INVESTMENTS AND ARE NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. INVESTMENTS MANAGED BY PHASE 3 ARE DESIGNED ONLY FOR SOPHISTICATED PERSONS WHO CAN BEAR THE ECONOMIC RISK OF THE LOSS OF THEIR ENTIRE INVESTMENT AND WHO HAVE A LIMITED NEED FOR SHORT TERM LIQUIDITY IN THEIR INVESTMENT PROGRAM. THERE CAN BE NO

ASSURANCE THAT PHASE 3 WILL ACHIEVE ITS INVESTMENT OBJECTIVE ON BEHALF OF ANY CLIENT, INCLUDING ANY PRIVATE FUND CLIENT.

- A. Phase 3's investment objective is to achieve attractive risk adjusted returns, primarily by employing relative value, directional, fundamental, volatility and event-driven strategies.

In terms of Phase 3's investment process, Phase 3 implements one or more of the following investment and trading approaches on behalf of its Clients: capital structure arbitrage, convertible bond arbitrage, volatility arbitrage, sector and other relative value investing, new issue investing, technical/flow, fundamental credit and other fundamental investment strategies. The foregoing list is not all inclusive and Phase 3 anticipates the continued development of its investment and trading approaches.

Phase 3 intends to pursue the investment objective described above and will generally follow the outlined investment strategies for so long as such strategies are in accord with Clients' investment approaches and may also formulate new approaches to carry out the overall objective of Clients.

B. Risk Factors

An investment managed by Phase 3 involves significant risks and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investments, and who have met the conditions set forth in the Offering Documents for any fund in which they plan to invest. There can be no assurance that Phase 3 will achieve its investment objectives for Clients. An investment managed by Phase 3 carries with it the inherent risks associated with investments in equities, equity-related securities, debt, the use of short sales, futures and leverage.

Investment and Trading Risks

Corporate Securities in General

Prices for corporate securities in general are affected by numerous, often complex and interrelated, factors. A non-exhaustive list of price influences that may affect one or more issuers or industry sectors, the market for a particular security type, the markets in various jurisdictions and/or other aspects of the Adviser's trading, includes the following: interest rates; inflation; general economic conditions; geopolitical forces; currency conditions and foreign exchange rates; market sentiment; analyst research and/or media reports; trading patterns and/or market trends; the availability of credit; credit spreads; an issuer's financial condition, including its creditworthiness; corporate announcements and events earnings, such as mergers, bankruptcies, insolvencies, and proxy contests; other conditions affecting an issuer's business, such as competition, product offerings; lawsuits and/or fraud; price-earnings ratios or other metrics; weather or climate forces; and regulatory conditions or potential regulatory changes.

U.S. Government Agency Securities

The Adviser may invest in obligations issued or guaranteed by the U.S. government or its agencies, instrumentalities or sponsored enterprises. Included among the obligations issued by agencies and instrumentalities of the U.S. government are: instruments that are

supported by the full faith and credit of the U.S., such as certificates issued by the U.S. Government National Mortgage Association (“Ginnie Mae”); instruments that are supported by the right of the issuer to borrow from the U.S. Treasury (the “Treasury”) such as securities of U.S. Federal Home Loan Banks; and instruments that are supported solely by the credit of the issuing instrumentality such as the U.S. Federal National Mortgage Association (“Fannie Mae”) and the U.S. Federal Home Loan Mortgage Corporation (“Freddie Mac”). The Fund may also invest in separately traded principal and interest components of securities guaranteed or issued by the U.S. government or its agencies, instrumentalities or sponsored enterprises if such components trade independently under the Separate Trading of Registered Interest and Principal of Securities Program or any similar program sponsored by the U.S. government. The U.S. government is not obligated by law to provide support to or guarantee the obligations of an instrumentality it sponsors, and each of the obligations issued by such sponsored entities therefore carries the credit risk of each such issuer. In addition, as a result of the 2007-2009 global economic crises, the U.S. government has previously intervened to provide additional support to certain of its agencies and instrumentalities including Ginnie Mae, Fannie Mae and Freddie Mac.

Sovereign Debt

The Adviser may invest directly and indirectly through derivative instruments, including swaps and credit default swap indices, in sovereign debt instruments. The issuers of sovereign debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the Account may have limited recourse in the event of a default. A sovereign debtor’s willingness or ability to repay principal and pay interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the sovereign debtor’s policy toward international lenders and the political constraints to which a sovereign debtor may be subject. Furthermore, these entities may be entitled to claim sovereign immunity from any claims made against them should they default on any of their obligations under such loans. Such a claim may hinder, or prevent entirely, the recovery of any loss suffered as a result of such default.

Repurchase Agreements

The Adviser may enter into repurchase agreements and reverse repurchase agreements with respect to securities. Repurchase agreements involve credit risk to the extent that the Account’s counterparties may avoid such obligations in bankruptcy or insolvency proceedings, thereby exposing the Account to unanticipated losses. The amount of credit risk incurred by the Account with respect to a repurchase agreement will depend in part on the extent to which the obligation of the Account’s counterparty is secured by sufficient collateral. In reverse repurchase agreements the Account is exposed to the risk that a counterparty fails to make substitute payments of interest or principal on underlying collateral held or fails to return appreciated securities that the counterparty holds.

Corporate Debt Obligations, Convertible Securities and High-Yield Securities

The Adviser may invest in corporate debt obligations. The Adviser may also invest in convertible securities, which are securities that may be exchanged or converted into a predetermined number of the issuer’s underlying shares or the shares of another company, or securities that are indexed to an unmanaged market index, at the option of the holder during a specified time period, and high-yield securities.

The market value of debt securities generally tends to decline as interest rates increase and conversely, increase as interest rates decline. Convertible securities also appreciate when the underlying security appreciates, and conversely, depreciate when the underlying security depreciates. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. The Adviser may actively expose the Account to credit risk. However, there can be no guarantee that the Adviser will be successful in making the right selections and thus fully mitigate the impact of credit risk changes on the Account.

Options

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

Derivatives

To the extent that Clients invest in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, Clients may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily mark-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of Clients, and hence Clients should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

Futures Trading is Speculative and Volatile

The Adviser's strategy involves significant risks not associated with traditional, "long-only" investing in the equity and debt markets. Speculative trading in the futures markets typically results in volatile performance. The price movements of futures contracts are influenced by changing supply and demand relationships, agricultural, trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events, crop diseases, climate, the purchasing and marketing programs of different nations, changes in interest rates and numerous other factors. In addition, governments occasionally intervene, directly and by regulation, in certain markets, particularly those in currencies and interest rates. Government intervention is often intended to influence prices directly. The Adviser cannot control these factors nor give assurance that its advice will result in profitable trades for the Fund or that the Fund will not incur substantial losses.

Trading Limits on Futures Contracts

Most U.S. futures exchanges impose fluctuation limits on the amount by which the price of a futures contract traded on the exchange may vary during a single day. Daily price fluctuation limits may reduce liquidity or effectively curtail trading in particular markets. If the price of a contract increases or decreases past the daily limit, traders may not take or liquidate positions in the contract. Contract prices have occasionally moved to the daily limit for several consecutive days with little or no trading. This could prevent the Adviser from promptly liquidating unfavorable positions and subject the Fund to substantial losses that could exceed the margin initially committed. Daily limits may reduce liquidity but they do not limit ultimate losses, because the limits apply only on a day-to-day basis. Even if contract prices do not reach the daily limit, the Adviser may not be able to execute trades at favorable prices when there is only light trading in the contracts involved. The Adviser may also execute trades on non-U.S. markets that may be substantially more prone to periods of illiquidity than the U.S. markets.

General Risk Factors

General Economic and Market Conditions

The success of Phase 3 with respect to its investing activities for Clients will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of a Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of a Fund's investments. Volatility or illiquidity could impair a Fund's profitability or result in losses. A Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

Financial Markets and Government Intervention

Phase 3's investment and strategy may entail significant risk of substantial volatility and loss. This may be especially true due to the failures and near failures of significant institutions, dislocations in other investment markets, corporate defaults, poor collateral performance or other extrinsic events. Although some governments and regulatory authorities, such as the U.S. federal government and the U.S. Federal Reserve and the governments and regulatory authorities of certain member countries of the European Union, have taken, and some others may take in the near future, actions to provide or arrange credit supports to financial institutions whose operations have been compromised by the current credit market dislocations and to restore liquidity and stability to the financial system in such jurisdictions, the implementation of such governmental interventions and their impact on both the credit markets generally and a Fund's investment program in particular are uncertain. Furthermore, U.S. government intervention in particular might not be sufficient to stabilize the U.S. financial services sector and mitigate resulting volatility in the U.S. credit markets. As a result, the supply and price of the targeted portfolio investments of a Fund and therefore the Fund's ability to achieve its investment objective, may be substantially impaired.

Leverage

Many of the strategies employed by Phase 3 on behalf of Clients involve the use of significant leverage. Financial leverage has the effect of magnifying investment gains and losses. Due to the use of leverage, investments managed by Phase 3 may be vulnerable to large price movements. Therefore, such investments could sustain large losses relative to the size of capital investments.

Terrorist Action

There is a risk of terrorist attacks on the United States and elsewhere, potentially causing significant loss of life and property damage and disruptions in global markets. Economic and diplomatic sanctions may be in place or imposed on certain states, and military action may be commenced. The impact of such events is unclear but could have material adverse effects on general economic conditions and market liquidity.

Economic Conditions due to Coronavirus

The coronavirus epidemic could result in a general economic decline and have an adverse impact on Client investments, or Phase 3's ability to source new investments or to realize its investments, in particular if such an epidemic persists for an extended period of time or continues to spread globally.

Cybersecurity Risk

Phase 3, its service providers, counterparties and electronic communication networks are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. Any interruption of Phase 3's hardware or software functionality could lead to material or even complete losses to the Clients. Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose Phase 3 and its clients to civil liability as well as regulatory inquiry and/or action. In addition, investors could be exposed to additional losses as a result of unauthorized use of their personal information. While Phase 3 and its affiliates have established policies, business continuity plans and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified or that such measures may become outdated, incomplete or ineffective.

It is very important to refer to the respective Offering Documents for a complete understanding of the material risks involved with Phase 3's investment strategies.

The information contained herein is a summary only and is qualified in its entirety by the relevant governing documents.

Item 9 – Disciplinary Information

- A. Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an investor or potential investor's evaluation of Phase 3 or its management. Phase 3 has no disciplinary information to disclose.

Item 10 – Other Financial Industry Activities or Affiliations

- A. Neither Phase 3 nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.
- B. Phase 3 is registered as a commodity trading advisor and a commodity pool operator with Commodity Futures Trading Commission and a member of the National Futures Association (NFA ID: 0512832).
- C. Phase 3 does not have any additional relationships with related persons to disclose or that could cause a material conflict of interest with a Client.
- D. Neither Phase 3 nor any of its management persons receive compensation directly or indirectly from advisers that create a material conflict of interest.

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

- A. Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940 (the "Advisers Act"), Phase 3 has adopted a written code of ethics ("Code of Ethics") that sets forth standards of conduct expected of employees and addresses conflicts that can arise from personal trading. Phase 3's Code of Ethics describes its fiduciary duties and responsibilities to Clients and sets forth Phase 3's practice of supervising the personal securities transactions of its employees. The Code of Ethics requires all employees to place Clients' interests ahead of Phase 3's interests and to maintain full compliance with any applicable federal and state securities laws governing registered investment advisory practices. Phase 3 will provide a complete copy of its Code of Ethics to any investor or prospective investor upon request made to the CCO at Phase 3's principal address.
- B. N/A
- C. Phase 3 manages the potential conflicts of interest inherent in personal trading by employees, related persons, and access persons (collectively "Covered Persons") by rigorous enforcement of its Code of Ethics, which contains limitations on Covered Persons' personal investment activities, including pre-clearance requirements and reporting guidelines for Covered Persons. Phase 3 receives transactions and holdings reports in accordance with Advisers Act Rule 204A-1. The Chief Compliance Officer ("CCO"), or his designee, reviews Covered Persons' personal transactions and holdings reports to ensure

each Covered Person is conducting his or her personal securities transactions in a manner that is consistent with the Code of Ethics. One of Phase 3's founding principals reviews the CCO's personal transactions and holdings reports and has approval authority for his personal trading requests. With the exception of large- and mid-cap companies, Covered Persons are prohibited from personal trading in publicly-traded securities without seeking pre-approval from the CCO. Phase 3's Covered Persons may also purchase and sell mutual funds, money market funds, certificates of deposit, treasury securities, co-op securities, open-end funds, exchange-traded funds, and municipal bonds without pre-clearance and private investments with pre-clearance.

Notwithstanding the restrictions on personal trading as described above, a Covered Person may have an account where all transactions do not require pre-approval if (a) the Covered Person delegates to a professional investment adviser full investment discretion over the account, (b) the Covered Person confirms that he or she will not exercise investment discretion over the account or directly or indirectly influence any investment decisions for the account, and (c) such professional investment adviser confirms that he or she will independently manage the account, as any such account is not subject to the reporting requirements under Rule 204A-1.

D. See C above.

Item 12 – Brokerage Practices

- A. Phase 3 is typically authorized to determine the broker, dealer or counterparty to be used in connection with Client transactions. In selecting brokers, dealers or counterparties to execute transactions, Phase 3 need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not Phase 3's practice to negotiate "execution only" commission rates, thus Phase 3 may be deemed to be paying for research, brokerage, or other services provided by the broker which are included in the commission rate.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance to the investment decision-making process. Phase 3 will limit the use of "soft dollars" to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e).

In some instances, Phase 3 may receive a product or service that may be used only partially for functions within Section 28(e) (e.g., an order management system, trade analytical software, or proxy services). In such instances, Phase 3 will make a good faith effort to determine the relative proportion of the product or service used to assist Phase 3 in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting Phase 3 in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Client

transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by Phase 3 from its own resources.

Research and brokerage services obtained by the use of commissions arising from Client portfolio transactions may be used by Phase 3 in its other investment activities and thus, Phase 3 may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

Although Phase 3 will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation of "mixed use" products or services create a potential conflict of interest between Phase 3 and its Clients.

In selecting brokers and negotiating commission rates, Phase 3 will take into account the price quotes; the size of the transaction; the nature of the market of the security; the timing of the transaction; difficulty of execution; the broker-dealer's expertise in the specific security or sector in which Phase 3 seeks to trade; the extent to which the broker-dealer makes a market in the security involved or has access to such markets; availability of accurate information regarding the market for the security; the broker-dealer's skill in positioning the securities involved; the broker-dealer's promptness of execution; the broker-dealer's financial stability; adequacy of the broker-dealer's trading infrastructure, technology and capital; the broker-dealer's reputation for diligence, fairness and integrity; quality of service rendered by the broker-dealer in other transactions for Phase 3; confidentiality considerations; the quality and usefulness of research services and investment ideas presented by the broker-dealer; the broker-dealer's ability and willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order handling that may surround the particular transaction; and other factors deemed appropriate by Phase 3. Phase 3 may place transactions with a broker or dealer that: (i) provides Phase 3 with the opportunity to participate in capital introduction events sponsored by the broker-dealer; or (ii) refers investors to Phase 3 or other products advised by Phase 3, if otherwise consistent with seeking best execution; provided that Phase 3 is not selecting the broker-dealer as remuneration for the opportunity to participate in such capital introduction events or the referral of investors.

- B. When appropriate, Phase 3 may, but is not required to, aggregate Client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price achieved for such trades.

Phase 3 may maintain accounts with the prime brokers and/or executing brokers, through which Phase 3 may execute trades, borrow securities, and maintain custody of its securities.

Phase 3 reserves the right to change the brokerage and custodial arrangements described above.

Item 13 – Review of Accounts

- A. Phase 3 principals are responsible for daily review of Client accounts, performing reviews of positions, allocations and strategy. Phase 3 also receives updated profit and loss information throughout the day.
- B. N/A
- C. Investors are able to review their capital accounts monthly by a statement they receive directly from the custodian or from the fund administrator in the case of a private fund. Within 90 days after the end of each fiscal year, an annual report is also delivered to each of the investors in the private fund.

Item 14 – *Client* Referrals and Other Compensation

- A. Phase 3 does not receive any economic benefit from anyone other than its Clients for providing investment advice or other advisory services.
- B. At this time, Phase 3 does not compensate anyone for Client referrals. However, Phase 3 may appoint a placement agent or third-party marketer to assist in the placement of interests in a private fund managed by the Adviser.

Item 15 – Custody

Phase 3 does not maintain custody of the assets of managed account clients. However, Phase 3 is deemed to have custody of the private funds it manages by virtue of its status as investment manager and managing member. Phase 3 will maintain the assets of the private funds in their own name in accounts with “qualified custodians” pursuant to Rule 206(4)-2 under the Advisers Act. To ensure compliance with Rule 206(4)-2, investors will be provided with audited financial statements prepared by an independent accounting firm that is registered with, and subject to review by, the Public Company Account Oversight Board, in accordance with U.S. Generally Accepted Account Principles, within 90 days of the end of the private fund’s fiscal year. Investors should carefully review such audited financial statements.

Item 16 – Investment Discretion

Investment advice is provided directly to Clients on a discretionary basis. With respect to Fund Clients, this advice is provided to the Fund as a whole and not to individual investors in the Funds.

Investment advisory services are provided to private Fund Clients in accordance with the governing documents of each Fund.

Phase 3 is authorized to exercise discretion to determine what securities to trade on behalf of Clients. This discretion includes, but is not limited to, discretion over the amount and

timing of transactions or securities as well as the choice of executing brokers for such transactions. All limitations and restrictions placed upon Client investments, such as in the form of a side letter agreement, must be presented to Phase 3 and agreed to in writing by Phase 3 and such investor.

Item 17 – Voting *Client* Securities

- A. Phase 3 has adopted a proxy voting policy which it believes is reasonably designed to ensure that proxies are voted in the best interest of its Clients and in accordance with its fiduciary duties and Rule 206(4)-6 under the Advisers Act, as amended. Phase 3 will generally seek to vote proxies in a way that attempts to maximize the value of Clients' assets, subject to any Phase 3 specific proxy voting instructions and restrictions mandated by Phase 3's Clients. The CCO coordinates Phase 3's proxy voting process.

In the event that the presence of a proxy-related material conflict of interest between the interests of Phase 3 and one or more of its Clients is identified, a shareholder's representative elected by the vote of the Fund's investors in the case of a Fund, or the Client itself in the case of an individual Client, will be consulted in order to assess the appropriateness of Phase 3's vote on behalf of the Client or a Fund. The Client or shareholder's representative may be informed of Phase 3's opinion related to the vote but must also be informed of the potential conflict of interest in great detail, providing any and all information related to the conflict that is necessary to understand the nature of such conflict. Additionally, any further information requested by the shareholder's representative or the Client related to the vote or Phase 3's conflict of interest must be provided directly to the shareholder's representative or the Client directly by the CCO.

The CCO will ensure that Phase 3 complies with all proxy voting rules and recordkeeping requirements under the rules. Investors may obtain a copy of Phase 3's proxy voting policies and procedures upon request to the Chief Compliance Officer at Phase 3's principal office.

- B. N/A

Item 18 – Financial Information

- A. Phase 3 does not require or solicit payment of more than \$1,200 in fees per Client, six months or more in advance.
- B. N/A
- C. Phase 3 has not been the subject of a bankruptcy petition at any time in the past ten years.