

**JAMES RIVER CAPITAL CORP.**  
**Part 2A of Form ADV: Firm Brochure**

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**This brochure provides information about the qualifications and business practices of James River Capital Corp., an investment adviser registered with the United States Securities and Exchange Commission. If you have any questions about the contents of this brochure, please contact us at (804) 578-4508 or [laura@jrcc.net](mailto:laura@jrcc.net). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about James River Capital Corp. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **MATERIAL CHANGES**

James River's Form ADV Part 2 was last updated in August 2020.

Since the time of the August 2020 update, there have been no material changes to James River's business activities.

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#### 4. ADVISORY BUSINESS

James River Capital Corp., a Delaware corporation which we will refer to as “James River,” began operation in April 1986 under the name of KP Futures Management Corp. and served as the alternative investment department of Kidder, Peabody & Co., Inc. (“Kidder”). James River became an independent investment firm in 1995 when Paul Saunders and Kevin Brandt, the two senior officers in the department, acquired the business from Kidder. James River has been operating as an independent investment adviser under its current name since January 1995. Paul Saunders and Kevin Brandt are the two principal owners of James River.

James River sponsors and serves as discretionary investment adviser to private investment funds that are currently offered only to high net worth, financially sophisticated institutional and individual investors. In its role as discretionary investment adviser, James River invests directly and indirectly in a broad range of investment instruments. James River also sponsors or acts as a service provider in a non-advisory role to certain private investment funds for which an unaffiliated third party serves as investment adviser.

In this brochure we refer to the funds offered to outside investors and for which James River provides advisory services as the “Funds” collectively, and each, a “Fund.” Funds that only trade futures contracts or other non-securities or for which James River provides no advisory services are not described herein.

The Funds fall into several categories that are described immediately below. For additional detail on the strategies and material risks of the Funds, see Item 8 of this brochure, entitled “Methods of Analysis, Investment Strategies and Risk of Loss.”

**Multi-Strategy Funds of Funds:** In this brochure, the term “Multi-Strategy Funds of Funds” refers to Turbo Multi-Strategy LLC and Turbo Multi Strategy II Ltd. (collectively, the “Turbo Funds”) as well as James River Multi-Strategy Fund Ltd. As of January 2017, Turbo Multi-Strategy LLC pursues its strategy indirectly by investing all or substantially all of its assets in Turbo Multi Strategy II Ltd., a Cayman Islands exempted company. Turbo Multi Strategy II Ltd. in turn enters into derivative trades for which the return is tied to the performance of James River Multi-Strategy Fund Ltd., a multi-strategy fund of funds.

Prior to January 2017, James River Multi-Strategy Fund L.P., which has since been wound down and no longer has client assets, was James River’s flagship fund of funds. In addition, prior to January 2017, Turbo Multi-Strategy LLC directly invested in derivative trades for which the return was indexed to the performance of James River Multi-Strategy Fund L.P.

With respect to James River Multi-Strategy Fund Ltd., James River allocates assets to multiple investment advisers and/or investment funds, which in turn trade in securities and derivatives. In this brochure we refer to these investment advisers as “Sub-Fund Managers” and the investment funds managed, advised, sponsored, and/or serviced by the Sub-Fund Managers as “Sub-Funds.” In selecting Sub-Funds and Sub-Fund Managers, James River considers a variety of factors, including past performance, diversification characteristics, amount of assets under management, overall integrity and reputation, and fees charged. James River’s sources for identifying prospective Sub-Funds and Sub-Fund Managers include

referrals from other Sub-Fund Managers, consultants, brokers, and investors, other industry relationships, articles and publications, and related due diligence. Sub-Fund Managers may employ all types of trading strategies including, but not limited to, relational and arbitrage trading, basis trading, spread trading, municipal securities investing, directional trading, short-selling, derivatives trading, relative value trading and speculative lending.

**Lending Funds:** In June 2015, James River launched two lending funds: James River Financing Fund LLC and James River Financing Fund II LLC. Each of these Funds is a Delaware series limited liability company, and, collectively with their respective series, are referred to in this brochure as the “Lending Funds.” The Lending Funds were formed to invest in customized collateralized loans or other types of loans (each, a “Loan”), with each agreement structured to meet the specific needs of each different borrower, while attempting to maximize protection for investors in the Lending Funds. It is intended that each series of James River Financing Fund LLC will invest all or substantially all of its assets in a corresponding series of James River Financing Fund II LLC which in turn will make Loans on behalf of the Lending Funds. Direct investment in James River Financing Fund II LLC is limited to investment vehicles managed by James River. Although each series of the Lending Funds will not be a separate legal entity from the applicable Fund, each series will be offered subject to its own terms and may invest in opportunities separately from other series of such Fund. The assets and liabilities attributable to each series also will be segregated from the assets and liabilities attributable to any other series and from the general assets and liabilities of the applicable Fund.

In June 2015, James River held an offering of two Lending Fund series: James River Financing Fund LLC – Series 1 (“JRFF – Series 1”) and James River Financing Fund II LLC – Series 1 (“JRFF II – Series 1”). These series are no longer open to investment.

**Private Equity Fund:** In April 2016, James River launched Summit Action Fund LLC, a Delaware series limited liability company, in cooperation with Summit Action LLC. Similar to the Lending Funds, investment in this Fund is offered through separate series whose assets and liabilities will be segregated from those of the Fund and any other series of the Fund, and whose terms and investment opportunities may differ from any other series of the Fund. Summit Action Fund LLC is referred to in this brochure as the “Private Equity Fund.” The Private Equity Fund has one investment adviser: James River Capital Corp. James River makes investment decisions for the Private Equity Fund through an investment committee. The Private Equity Fund was formed to achieve capital appreciation by investing its capital in equity securities of private operating companies in various stages of development, with a focus on companies that aim to positively disrupt their industries.

In April 2016, James River held an offering for Summit Action Fund LLC – Series 1 and, in May 2017, held an offering for Class A-1 interests (“Class A-1 Interests”) in the Opportunities Series, a newly established series of the Private Equity Fund. Summit Action Fund LLC – Series 1 and the Class A-1 Interests are no longer open to investment. In July of 2019, James River held an offering for Class A-2 interests (“Class A-2 Interests”) in the Opportunities Series which had a final close in March of 2020 and is no longer open to investment.

Summit Action LLC withdrew as Investment Manager; going forward, James River have all investment adviser responsibilities related to the Fund.

As of January 1, 2021, James River managed on a discretionary basis approximately \$ 581 million in client and proprietary assets through the above-described Funds in which third-party investors may invest. This amount includes both the assets in the Turbo Funds and the assets invested in James River Multi-Strategy Fund Ltd. by the dealer hedging derivative contracts between the dealer and the Turbo Funds. Paul Saunders, Chairman and CEO of James River, along with his immediate family and affiliated entities currently hold, on a direct and indirect basis, the majority of interests in Turbo Multi-Strategy LLC, which in turn invests all or substantially all of its assets, and is the largest investor, in Turbo Multi Strategy II. Royal Bank of Canada held approximately 99% of the assets in James River Multi-Strategy Fund Ltd. in relation to hedges on options written by their affiliate and which are held by the Turbo Funds. Separately, James River provides operational, legal and administrative services to funds and accounts totaling approximately \$4.7 billion in assets as of January 2021. James River manages other funds for which it does not have investment advisory discretion or does not provide advisory services as to securities.

## **5. FEES AND COMPENSATION**

In its role as discretionary investment adviser, James River receives management fees and a share of net profits, if any, of each investor in the Funds in the form of an incentive fee, incentive allocation or carried interest. In addition to compensation payable to James River, each Fund pays its own investment, administrative, organizational and operating expenses. James River's fee structure, the method of payment of such fees and the other expenses applicable to each category of Funds are as follows:

### **Multi-Strategy Funds of Funds**

#### **Management and Performance Fees.**

James River is entitled to receive a management fee from each fee-bearing class of James River Multi-Strategy Fund Ltd. equal to 0.0833% of the month-end net asset value of such class (a 1% annual rate) and from each reduced-fee bearing class a management fee equal to 0.020833% of the month-end net asset value of such class (a 0.25% annual rate).

For Turbo Multi Strategy II Ltd., fee-bearing classes of shares pay James River a management fee equal to 0.0833% of the month-end net asset value (a 1% annual rate) of such class, after reduction for all other fees and expenses for the month attributable to such class and paid pursuant to the manner described in "Method of Payment of Fees" below. Each such fee-bearing class of shares will also pay to James River an annual incentive fee equal to 10% of cumulative "net profit" attributable to such class. "Net profit" with respect to each such class for any calendar year is the net profits, if any, attributable to the operations of such class during such year, after reduction for all other fees and expenses of such class. Any loss carryforward from prior periods must be recouped before net profit can again be generated. Net profit is not reduced by incentive fees previously paid to James River.

With respect to Turbo Multi-Strategy LLC, fee-bearing classes of units pay no management fees or performance compensation at the level of that Fund, however, are subject to management fees and incentive fees at the level of Turbo Multi Strategy II Ltd. in the same amount applicable to fee-bearing classes of shares of Turbo Multi Strategy II Ltd.

Because the value of the derivative trades of Turbo Multi Strategy II Ltd. is based upon a multiple of the net asset value of the relevant shares of James River Multi-Strategy Fund Ltd., the performance of each share of Turbo Multi Strategy II Ltd. (and, indirectly, each unit of Turbo Multi-Strategy LLC) will be reduced by the applicable fees and expenses charged at the level of James River Multi-Strategy Fund Ltd. For example, if a derivative trade gives a class of shares in Turbo Multi Strategy II Ltd. and a class of units in Turbo Multi-Strategy LLC exposure to shares of James River Multi-Strategy Fund, Ltd. that is 3.5 times greater than the amount invested by Turbo Multi Strategy II Ltd. in the trade, investors holding those shares of Turbo Multi Strategy II Ltd. or units in Turbo Multi-Strategy LLC will effectively bear 3.5 times the management fee to which the applicable shares of James River Multi-Strategy Fund Ltd. are subject. Additional detail regarding the fees and expenses of James River Multi-Strategy Fund Ltd. which impact the performance of shares in Turbo Multi Strategy II Ltd. (and, indirectly, the units in Turbo Multi-Strategy LLC) is provided in the relevant Fund's offering materials.

#### Method of Payment of Fees.

All fees or allocations received by James River are deducted directly from the Multi-Strategy Funds of Funds. As applicable for the particular Multi-Strategy Fund of Funds and relevant class of units or shares in such Fund, management fees accrue monthly and are paid quarterly while incentive fees, if any, are paid annually as well as upon any redemption in respect of the relevant class of shares redeemed. In all cases, management fees and incentive fees are paid after the service is provided.

#### Fund Operating Expenses.

In addition to compensation payable to James River, the Multi-Strategy Funds of Funds also pay for their routine legal, accounting, audit, printing, filing, mailing, computer, administration, reporting, regulatory, insurance (including expenses related to D&O insurance for directors, as applicable), registrar and transfer agency fees, directors' fees, taxes or similar amounts, trustee expenses, if applicable, offering costs, due diligence and research expenses and other operating costs and their *pro rata* share of the operating expenses of any Sub-Fund in which a Multi-Strategy Fund of Funds invests. The Funds will also pay any extraordinary expenses such as indemnification payments and non-routine legal expenses, if any.

#### Brokerage and Transaction Costs.

The Multi-Strategy Funds of Funds are charged brokerage commissions, mark-ups, bid-ask spreads, interest expense, banking charges, fees and expenses relating to credit facilities, fees and expenses of the Sub-Funds, any derivative contract break fees, commitment, custodial and clearing fees and other transaction costs and expenses in connection with their trading

and investment activities. For a discussion of the brokerage arrangements applicable to the Multi-Strategy Funds of Funds, see Item 12-“Brokerage Practices.”

#### Fund Restructuring and Re-Launch Expenses.

James River has paid all of the costs and expenses associated with the restructuring or re-launch of the applicable Multi-Strategy Fund of Funds as set forth in the relevant Fund’s offering documents. Each Fund will reimburse James River for the applicable portion of its expenses in 24 equal monthly installments, with payments commencing as of the date such Fund re-commenced investment operations. An investor’s portion of such expenses will also be accelerated upon redemption prior to the end of such 24-month period, and in certain situations, reimbursement of such expenses may be accelerated in full such as may be needed to avoid a qualified audit opinion or upon the termination of the relevant Fund.

#### Negotiation of Fees; Waivers.

James River may, in its discretion, waive all or a portion of its applicable management fees and incentive fees for a particular investor.

### **Lending Funds**

#### Management and Performance Fees.

James River will be paid a 1% per annum management fee based on the net asset value of JRFF – Series 1 and any accrued interest on the Loan made by JRFF - Series 1 (the “Series 1 Loan”). Distributions will then be paid to investors as a return of capital contributions, on a *pro rata* basis. 90% of additional cash will be distributed to investors in proportion to their ownership of JRFF – Series 1 and 10% to James River, representing its incentive compensation. JRFF – Series 1 will not be subject to any additional fees at the level of JRFF II – Series 1 in which it invests substantially all of its capital.

#### Method of Payment of Fees.

The payment of JRFF – Series 1’s fees and the distribution of cash to its investors are dependent on JRFF – Series 1’s receipt of payment on the Series 1 Loan. The management fee will accrue monthly and will be paid quarterly while any cash distributions, from which James River’s incentive compensation, if any, will be apportioned, will be distributed on a quarterly basis but no less frequently than annually, provided that any such payment of management fees or distribution of cash will be limited to those instances where JRFF – Series 1 has cash available.

#### Ancillary Compensation.

James River will receive ancillary compensation directly from the borrower of the Series 1 Loan in the form of a 20% allocation of the net proceeds realized from the sale, lease or rental of the collateral underlying such Loan, payable only if the investors in JRFF – Series 1 have previously been paid their allocable portion of the principal, interest and other fees due from



the borrower with respect to the Series 1 Loan. The terms and conditions applicable to this compensation is more fully described in the supplement and offering materials of JRFF – Series 1. Ancillary compensation paid to James River may vary for each series of a Lending Fund.

#### Investment and Operating Expenses.

Each series of James River Financing Fund LLC will pay its own and its *pro rata* share of James River Financing Fund II LLC's costs incurred in connection with evaluating, acquiring, holding, managing and disposing its investments, including, but not limited to, due diligence expense (*e.g.*, consulting, legal, appraisal, third-party research, travel and other costs), interest expense, agent fees, participation fees, custodial fees, valuation costs, legal and enforcement expenses, insurance expense and all other costs and expenses relating to such series' investments.

Each series of James River Financing Fund LLC will also bear its direct operating and offering costs, including, but not limited to, routine legal, accounting, audit, tax preparation, administrative, printing, filing and other operating expenses, as well as any extraordinary expenses (*e.g.*, indemnification and non-routine legal expenses), if any. Any costs or expenses that relate to more than one series will be allocated among such series in accordance with their respective capital contributions.

### **Private Equity Fund**

#### Management and Performance Fees

Except as otherwise specified in the relevant offering materials of a series or class of a series of the Private Equity Fund, each investor will be subject to a quarterly management fee equal to 0.5% (2.0% per annum) of its aggregate capital commitments to a series during the investment period of such series (generally, the first three years following the final closing date of the series). After the expiration of the investment period, each investor subsequently will be subject to a quarterly management fee equal to 0.5% (2.0% per annum) of the investor's contributions to the relevant series. James River and Summit Action LLC are also entitled to receive performance compensation from each series of the Private Equity Fund in the form of a carried interest generally equal to 20% of profits upon realization of the applicable series' investments, after return of capital to investors.

With respect to the Opportunities Series of the Private Equity Fund, classes in such series generally will not be subject to a management fee unless otherwise provided in the relevant class' offering materials. Carried interest applicable to the Opportunities Series will generally match the terms set forth for other series of the Private Equity Fund, however, it will be calculated and made separately with respect to each class in the Opportunities Series rather than on a series-wide basis.

### Method of Payment of Fees.

The Private Equity Fund's management fee, if applicable, will be paid quarterly in advance, and will be prorated for partial periods. Management fees may be paid from capital called from investors of a series or from amounts otherwise available for distribution to investors. Management fees are subject to reduction as provided below in "Portfolio Company Fees." Distributions, from which carried interest will be apportioned, may be paid in cash or in securities. James River and Summit Action will divide the management fee and carried interest as determined by them.

### Portfolio Company Fees.

James River and/or Summit Action LLC may receive, from time to time, arrangement, monitoring, directors', break-up and other fees from each series' or classes' portfolio companies or prospective portfolio companies. Each class of a series will bear its *pro rata* share of expenses relating to its investment in the relevant portfolio company alongside one or more other series of the Private Equity Fund. Any such fees received by James River and/or Summit Action will offset future management fees payable by investors on a dollar-for-dollar basis (but not below zero). However, reimbursement to James River and/or Summit Action of out-of-pocket expenses will not be considered portfolio company fees for this purpose.

### Organizational Costs.

James River initially will bear the expenses associated with the organization and initial offering of each series of the Private Equity Fund, including legal fees and valuation fees with respect to certain investments in portfolio companies made by James River, Summit Action LLC and/or their respective principals prior to the initial closing of the applicable series and/or transferred by James River, Summit Action, and/or their respective principals to a series on or soon after such series' initial closing date, but each series will reimburse James River and Summit Action in equal monthly installments over a 36-month period beginning with the month in which the relevant series first exceeds \$5 million in capital called from "third party" investors. In the event that a series does not exceed such threshold by the date the series begins to make distributions, James River shall be reimbursed for the organizational costs of the series by way of a distribution of available cash after investors have received distributions equaling their aggregate capital contributions. Any organizational costs relating to a specific class of a series will be allocated only to such class.

### Investment and Operating Expenses.

Each series will pay its costs incurred in connection with evaluating, acquiring, holding, managing and disposing of its investments (whether consummated or not), including due diligence expenses, interest expense, broken deal expenses, taxes, custodial fees, valuation costs, regulatory reporting costs (*e.g.*, Form PF), legal and enforcement expenses, insurance expense and all other costs and expenses relating to the series' investments.

Each series will also bear its direct operating and offering costs, including routine legal, accounting, audit, tax preparation, administrative, printing, filing and other operating expenses, as well as any extraordinary expenses (*e.g.*, indemnification and non-routine legal expenses), if any.

Costs and expenses that relate to a particular series, or class of a series, will be allocated to such series or class. Any costs or expenses that relate to more than one series or class will be allocated among the relevant series and classes in accordance with their respective capital commitments.

**THE CALCULATION OF JAMES RIVER'S COMPENSATION IS COMPLEX. IT IS CRITICAL THAT INVESTORS REFER TO THE RELEVANT FUND GOVERNING DOCUMENTS AND OFFERING MATERIALS FOR A COMPLETE UNDERSTANDING OF APPLICABLE FEES AND EXPENSES. THE INFORMATION CONTAINED HEREIN IS A SUMMARY ONLY AND IS QUALIFIED IN ITS ENTIRETY BY THESE DOCUMENTS.**

### **6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As discussed in the previous section entitled "Fees and Compensation," James River receives performance-based compensation from investors in certain Funds. The form of such performance-based compensation may constitute a fee or allocation equal to a percentage of the appreciation in the net asset value of the applicable Fund or the investor's interest in such Fund. James River's receipt of performance-based compensation creates a conflict between its interest in earning a short-term profit and the long-term interests of the applicable Fund and its investors. Specifically, James River has an incentive to make investments that are riskier or more speculative than would be the case if James River received only asset-based compensation because these investments may allow James River to receive larger performance-based compensation for a particular time period.

### **7. TYPES OF CLIENTS**

James River provides discretionary investment advice to the Funds. For Funds whose interests are offered to U.S. persons, each U.S. investor at a minimum must be an "accredited investor" under Regulation D of the Securities Act of 1933 and a "qualified client" under Rule 205-3 of the Investment Advisers Act of 1940. In addition, for those Funds which are offered to U.S. persons and are operated pursuant to Section 3(c)(7) of the Investment Company Act of 1940, U.S. investors must also be "qualified purchasers" as that term is defined under Section 2(a)(51) of the Investment Company Act of 1940. Investment minimums vary by

Fund and apply regardless of whether the investor is a U.S. or non-U.S. Person. Investment minimums can generally be reduced or waived in James River's sole discretion.

## **8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Summary of Strategies Employed by James River**

#### **Multi-Strategy Funds of Funds**

The objective of the Multi-Strategy Funds of Funds is to achieve low correlation and superior risk-adjusted returns when compared to traditional equity and fixed income markets. Sub-Fund Managers manage the assets of the Multi-Strategy Funds of Funds through Sub-Funds. The Multi-Strategy Funds of Funds may also access Sub-Funds and Sub-Fund Managers synthetically through options, total return swaps, structured notes, or other derivative contracts.

James River is responsible for providing recommendations with respect to the selection of Sub-Funds and Sub-Fund Managers and the allocation of assets among them. For James River Multi-Strategy Fund Ltd., the Fund's directors have the responsibility of approving James River's selection of recommended Sub-Funds and Sub-Fund Managers, its recommended allocation of assets among them, the Fund's redemptions from such Sub-Funds and the Fund's hedging transactions. Selections of Sub-Funds and Sub-Fund Managers are based upon, among other things, past performance, investment strategy, trading style, background, organization, assets under management, and fees, and, James River's evaluation of prevailing market conditions. James River attempts to adjust the overall portfolio to optimize the balance between volatility, risk, and profit potential.

Sub-Fund Managers collectively utilize a wide range of investment and trading strategies that may include speculative trading strategies executed in the securities, commodities, currency, and derivative markets; specialized debt and equity strategies such as event driven strategies, short selling, long/short investing, and distressed securities investing; and relative value strategies such as fixed income, merger, and convertible bond arbitrage. The Sub-Fund Managers may use technical trading strategies, may attempt to follow trends, may rely on their own judgment, or may employ some combination of the foregoing. While James River anticipates that most Sub-Fund Managers will focus on readily marketable securities and exchange traded instruments, Sub-Fund Managers may utilize virtually any security, derivative, other financial instrument, or asset.

Subject to the approval of the directors of James River Multi-Strategy Fund Ltd. as applicable to such Fund's investments, James River has authority to make investments directly on behalf of the Multi-Strategy Funds of Funds to hedge the Funds' exposure to a particular market or to rebalance their portfolio. The Multi-Strategy Funds of Funds need not be fully invested at all times and James River may elect to reserve certain assets for future investment with Sub-Funds and Sub-Fund Managers or to allocate less than all assets as a defensive measure. Assets not allocated to a Sub-Fund or Sub-Fund Manager or used for hedging purposes are generally held in government securities.

## **Lending Funds**

The investment objective of the Lending Funds is to achieve attractive total returns by using capital to make Loans structured to meet the individual needs of borrowers while seeking to control the risks of such Loans. James River's focus will be on asset-based lending — concentrating on the quality of the real estate or other assets posted as collateral and considering the anticipated cash flow and business plan of each obligor. James River expects that each Loan will be relatively short-dated (*e.g.*, 2-3 years). Loans will bear interest (including, potentially, upfront fees) and may involve profit participations in collateral.

James River currently anticipates that each Loan will be made to small- and medium-sized companies or high net worth individuals that have limited or no access to the traditional capital markets due to factors unrelated to their actual credit quality or business prospects. Such factors may include a borrower's lack of liquid collateral to secure financing or the general tendency of larger lenders and investors to concentrate their resources on larger capitalization companies.

Loans may be made against a wide variety of collateral, including but not limited to real estate, receivables, equipment and other assets. Loans are also expected to be made solely to companies and individuals resident in the United States, although certain collateral may be located abroad.

James River and its principals have developed a network of relationships in the loan origination community which includes independent loan origination firms, finance companies, financial advisors, legal advisors and other contacts. James River will rely substantially on these contacts to generate investment opportunities.

Originating lenders typically perform extensive due diligence on the creditworthiness of the borrower, the value of any collateral and the proposed transaction. Among the quantitative and qualitative factors a lender or investor may consider relating to a borrower and a proposed transaction include, but are not limited to: (i) enterprise value and available assets; (ii) historical and projected performance, operating and revenue trends, cash flow consistency and sources of repayment; (iii) competitive position within, and anticipated growth characteristics of, the borrower's industry; (iv) capital structure and ability to repay debt under a stress scenario; (v) financial covenants, debt maturities and liquidity; (vi) appraisals of the collateral securing or offered to secure financing; (vii) quality of management and their personal investment and/or other economic incentives for the borrower to succeed; and (viii) the adequacy of loan agreements.

## **Private Equity Fund**

The Private Equity Fund's investment objective is to achieve substantial capital appreciation by investing its capital directly or indirectly in equity securities of private operating companies. The companies in which the Private Equity Fund will invest typically fall into one of three categories: (i) early stage, (ii) mid-stage and (iii) late-stage. Early-stage companies typically will be in the seed or angel financing stage, have been designed to create or upend an industry, and have expected valuations ranging from \$1-8 million. Mid-stage

companies typically will be in the series A or B financing stage, have reached an inflection point in their development and will be focused on execution of the business model, and have expected valuations ranging from \$10-30 million. Late-stage companies typically will be in or past the series C financing stage, have attracted institutional investors and will be led by successful management teams, and have expected valuations greater than \$100 million. Private Equity Fund's investments in early stage, mid-stage, and late-stage companies are expected to be approximately \$50,000, \$1-3 million, and greater than \$1 million, respectively, but may be more or less in the discretion of James River and Summit Action LLC. The Private Equity Fund will focus on companies organized in the United States, but may also invest in non-U.S. companies and is not limited to specific industries.

James River and Summit Action LLC will source potential investments in portfolio companies through Summit Series, a nationally-recognized collection of curated events bringing together entrepreneurs, as well as other industry contacts such as entrepreneurs, bankers, investment advisers and lawyers.

The Private Equity Fund's investments may at any time include common stocks, preferred stocks, stock warrants and rights, debt, bonds, convertible securities, fixed income securities, swaps, futures contracts, forward contracts, options, other securities and derivatives, rights and options (purchased or written) on the foregoing and other investments, assets or property selected by James River and Summit Action LLC.

### **Risk Management**

The emphasis in James River's investing is to identify investment opportunities that James River determines to have superior risk/reward parameters. The Funds' overall portfolios are reviewed on an ongoing basis in an effort to maximize the Funds' returns relative to their risks, although there is no assurance that even robust risk management will mitigate or prevent the Funds' portfolio from experiencing significant losses. The risk management activities applicable to each category of Funds are as follows:

### **Multi-Strategy Funds of Funds**

James River uses diversification and monitoring to manage risks related to the Multi-Strategy Funds of Funds. In the course of recommending Sub-Funds and Sub-Fund Managers for the relevant Multi-Strategy Fund of Funds, James River seeks to broadly diversify investments by advisor, strategy and market in an effort to achieve low volatility of returns and limit downside risk. James River anticipates that the Multi-Strategy Funds of Funds will continuously maintain, directly or indirectly, investments with twenty-five to forty Sub-Funds and Sub-Fund Managers. Sub-Fund Managers are selected based upon many factors including their prospective ability to execute their strategy consistently and effectively in their chosen markets. Subject to director approval with respect to James River Multi-Strategy Fund Ltd., James River selects and monitors Sub-Funds and Sub-Fund Managers and adjusts the overall investment portfolio of the Multi-Strategy Funds of Funds in an attempt to optimize the balance between volatility, risk and profit potential.

## **Lending Funds**

To materially reduce the risk of loss for the Lending Funds, James River's focus will be on collateralized lending, and the Lending Funds will generally invest (directly or indirectly) in a Loan or Loans that have a collateral-to-Loan principal ratio of at least 2:1.

## **Private Equity Fund**

James River will endeavor to complete a thorough and robust review of each target portfolio company in which it invests on behalf of the Private Equity Fund. This screening process will begin after receiving an opportunity from James River's and Summit Action LLC's venture capital networks, which should provide the Private Equity Fund with what James River and Summit Action LLC believe to be significant high-quality deal flow.

## **Material Risks of James River's Strategies**

Investing in securities and derivatives involves a risk of loss that investors in the Funds should be prepared to bear. By investing in these Funds, investors are relying on the discretionary, market judgment of James River and, for the Multi-Strategy Funds of Funds, the Sub-Fund Managers that James River selects. The following is a summary of some of the material risks associated with the Funds' and Sub-Funds' strategies, and general references in this section to the Funds' or James River's risks include the risks of the Sub-Funds and the Sub-Fund Managers, respectively, unless otherwise indicated. This summary does not attempt to describe all of the risks associated with an investment in the Funds, and not all risks apply to all Funds. Although no summary can fully describe all of the risks associated with an investment in the Funds, the confidential private placement memorandum and other relevant offering materials for each Fund contains a more complete description of the risks associated with an investment in the Funds.

*Importance of Overall Market Conditions and Recent Market Disruptions.* The strategies of the Funds may be materially affected by overall market conditions over which James River has no control. From late 2007 through 2009, the credit markets experienced rapid contraction and volatility. These events led to well-publicized failures or forced sales of major investment banks and their affiliated brokers and dealers, a decrease by banks and dealers in lending to investment funds during a time of stress, substantial U.S. government involvement in U.S. markets, emergency rules relating to short sales and other trading restrictions on U.S. markets, and large redemptions from and inability to raise capital for investment funds. U.S. and non-U.S. governments are in the process of increasing the regulation of investment funds and otherwise intervening directly in markets. These developments, when and if they are realized, may have an adverse impact on the Funds' strategies.

*Swaps and Other Derivatives.* The Funds may enter into swap and similar derivative transactions. Swap contracts and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, the Funds will be subject to the risk of the inability or refusal to perform with respect to these contracts on the part of the counterparties with whom the Funds trade. Speculative position

limits are not currently applicable to swap transactions, although the counterparties with whom the Funds deal may limit the size or duration of positions available to the Funds as a consequence of credit considerations.

*Regulation of the OTC Derivatives Market.* The Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as “Dodd-Frank,” includes provisions that comprehensively regulate the over-the-counter (“OTC”) derivatives markets for the first time. Dodd-Frank will ultimately mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the Commodity Futures Trading Commission (the “CFTC”), SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase the Funds’ collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Funds are required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased and will continue to increase the OTC derivative dealers’ costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

The CFTC also now requires certain derivative transactions that were previously executed on a bi-lateral basis in the OTC markets to be executed through a regulated futures or swap exchange or execution facility. The SEC is also expected to impose similar requirements on certain security-based derivatives in the near future, though it is not yet clear when these parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including Funds, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Funds might otherwise engage impossible or so costly that they will no longer be economical to implement.

The overall impact of Dodd-Frank on the Funds remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

*Futures Contract Trading.* Futures contract prices are highly volatile, and price movements are influenced by a multitude of factors such as supply and demand relationships; government trade, fiscal, monetary and exchange control policies; political and economic events; and emotions in the marketplace. Futures contract trading is highly leveraged. The margin requirement for futures trading is generally very low, which greatly increases the volatility of a portfolio of futures contracts. Like other leveraged investments,



futures trades may result in losses in excess of the amount invested. Furthermore, futures trading may be illiquid as a result of daily limits on movements of prices. The Funds that directly or indirectly trade futures could be adversely affected by speculative position limits.

*Trading on Non-U.S. Futures Markets.* James River trades on futures contract markets outside the U.S. Trading on these markets is not regulated by any U.S. government agency and may involve certain risks not applicable to trading on U.S. exchanges. In a number of non-U.S. markets, a substantial volume of trades are executed wholly off exchanges in privately negotiated and substantially unregulated transactions. The Funds may not have the same access to certain trades as do various other participants in markets outside the U.S. Furthermore, since the Funds will determine their net assets in U.S. Dollars, they will be subject to the risk of fluctuations in the exchange rate between the local currency and U.S. Dollars as well as the possibility of exchange controls, in connection with its non-U.S. trading.

*Equities.* Equities invested in by the Funds may involve substantial risks and may be subject to wide and sudden fluctuations in market value with a resulting fluctuation in the amount of profits and losses.

*Securities Options.* Option trading is speculative and involves a high degree of risk. If the Funds purchase a put or a call option, they may lose the entire premium paid. If the Funds write or sell a put or call option, their loss is potentially unlimited.

*Short Sales.* The Funds may enter into transactions, known as “short sales,” in which they sell a security they do not own in anticipation of a decline in the market value of the security. Losses from short sales are potentially unlimited. Brokers may also require the Funds to “cover” a short position at an inopportune time. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase.

*Foreign Securities and Foreign Currencies.* The Funds may invest a portion of their assets in securities of foreign issuers or securities denominated in foreign currencies and in foreign currencies and forward contracts for these currencies. Investing in foreign securities and/or currencies may present a greater degree of risk than investing in domestic securities due to possible exchange rate fluctuations, possible exchange controls, less publicly-available information, more volatile markets, less securities regulation, less favorable tax provisions, including possible withholding taxes, war or expropriation. In particular, the dollar value of portfolio securities of non-U.S. issuers fluctuates with changes in market and economic conditions abroad and with changes in relative currency values. In addition, the Funds will be exposed to the risk of counterparty default on foreign currency forward contracts.

*Forward Contract Trading.* The Funds may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC now regulates non-deliverable forwards (including deliverable forwards where the parties do not take delivery). Changes to the forward markets may entail increased costs and result in burdensome reporting requirements. In addition, there is no

limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities pursuant to Dodd-Frank might limit such forward trading to less than that which James River would otherwise recommend, to the possible detriment of the Funds.

*Trading in Options.* The Funds may trade options on investment instruments. This trading is speculative and highly leveraged. Specific market movements of the investment instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the investment instrument underlying the option which the writer must purchase or deliver upon exercise of the option.

*Security Futures.* The Funds may trade security futures and options on security futures. Given the leverage inherent in security futures, a relatively small movement in the price of the underlying stock or narrow-based index will have a proportionately larger impact on the Funds' value. Purchasers of security futures are not in the same position as owners of shares of the underlying stock. Buyers of security futures contracts have no ownership interests or voting rights with respect to the underlying stock. Buyers of security futures contracts also receive no dividends paid by the issuer of the underlying stock that are paid on a quarterly or other regular basis; however, security futures holders should receive the economic value of special dividends and rights distributions scheduled to be distributed before the expiration of the futures contract. An additional important difference between security futures and the underlying stock is that gains and losses on stock futures are realized daily. Moreover, futures contracts expire on a stated date during the contract month and any gains or losses not already realized will be realized at that time. Therefore, unlike shares of stock, an unprofitable security futures position cannot be held indefinitely in the hope of an eventual price recovery.

*Highly Leveraged Trading; Volatile Markets.* Much of the Funds' trading is aggressive and involves leveraged investment instruments. In addition, the market prices of investment instruments are highly volatile and materially affected by unpredictable factors. While volatility creates profit potential, volatility also directly affects the risks associated with trading. The combination of leverage and volatility can subject the value of the Funds' investment portfolios to sharp fluctuations, both positive and negative in direction. The profitability of the Funds depends to a significant degree on James River's ability to forecast price movements correctly. If James River fails to correctly predict price movements, substantial losses could result.

*Financing Arrangements.* The investment strategies utilized by the Funds may require the use of substantial leverage. As a general matter, the banks and dealers that provide financing can apply essentially discretionary margin, "haircut," financing, and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in margin calls, loss of financing, and/or forced liquidations of positions at disadvantageous prices. There can be no assurance that the Funds will be able to maintain or secure adequate

financing, the absence of which could have a material adverse impact on the Funds' profit potential.

*Special Situations.* The Funds may invest in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security with a value less than the purchase price to the Funds of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Funds may be required to sell their investment at a partial or complete loss.

*Debt and Other Income Securities.* Fixed income securities are subject to interest rate, market, credit, and currency risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country, or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of fixed income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Fixed income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

*Reliance on Corporate Management and Financial Reporting.* Certain of the strategies that will be implemented by the Funds may rely on the financial information made available by the issuers in which the Funds invest. James River has no ability to independently verify the financial information disseminated by the issuers in which the Funds invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Funds can incur as a result of corporate mismanagement, fraud and accounting irregularities.

*Emerging Market Investing.* The Funds may invest a portion of their assets in government and corporate debt and equity securities and related instruments in emerging markets. The value of emerging market instruments may be drastically affected by political developments in the country of issuance and are generally subject to abrupt and unexpected change. Emerging market countries tend to have periods of high inflation and high interest rates as well as substantial volatility in interest rates. The value of emerging market debt can be expected to be extremely sensitive to changes in interest rates worldwide and, in particular, in the country of the relevant issuer. Emerging market debt issuers and their

obligations are not generally rated by any credit rating agency, and a significant proportion of such issuers and obligations would likely fall in the lowest rating category if they were rated.

*Mortgage-Backed Securities ("MBS") and Asset-Backed Securities ("ABS").* Investing in commercial and residential MBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risk of principal prepayment and defaults as well as the risk of investing in real estate. MBS generally provide for the payment of interest and principal on the MBS on a frequent basis, and there also exists the possibility, particularly with respect to residential MBS ("RMBS"), that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, the Funds may be required to reinvest assets at an inopportune time, which may expose the Funds to a lower rate of return. The risks of investing in RMBS reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Funds may invest.

ABS are subject to interest rate risk and, to a lesser degree, prepayment risk. ABS are subject to additional risks in that, unlike MBS, ABS generally do not have the benefit of a security interest in the related collateral. Each type of ABS also entails unique risks depending on the type of assets involved and the legal structure used. ABS typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA, as well. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

*Convertible Securities.* Convertible securities, or "Convertibles," are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion, and ultimately default risk. Convertibles are also subject to liquidity risk based upon market conditions.

*Limits on Hedged Strategies.* While the Funds may use "market neutral" or "relative value" hedging or arbitrage strategies, this in no respect should be taken to imply that the Funds' investments are without risk. Substantial losses may be recognized on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively

result in the positions being transformed into an outright speculation. Every market neutral or relative value strategy involves exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds, or the price spread between different classes of stock for the same underlying firm. Further, many “market neutral” Sub-Fund Managers employ limited directional strategies, which expose Sub-Fund Managers to certain market risk.

*Illiquid Investments.* Certain Funds may make investments that are subject to legal or other restrictions on transfer or for which no liquid market exists, such as private placements. The market prices, if any, of such investments tend to be more volatile and it may be impossible to sell such investments when desired or to realize their fair value in the event of a sale. Moreover, securities in which James River may invest include those that are not listed on a stock exchange or traded in an OTC market. As a result, they may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid. Further, companies whose securities are not registered or publicly traded are not subject to the disclosure and other investor protection requirements, which would be applicable if their securities were registered or publicly traded.

*Investing in Private Companies.* All investments in private companies involve substantial risks, including, without limitation: (i) adverse or ineffective, as well as inconsistent, alignment of interests among management (including as a result of personal/family rather than business issues); (ii) technological obsolescence; (iii) financial planning misjudgment; (iv) employee or management misconduct; (v) lack of reliable financial information; and (vi) any number of general economic conditions that are beyond the control of management of the portfolio company, James River and Summit Action LLC, such as: changing market sentiment; changes in economic conditions, competition and technology; changes in interest rates; changing economic or political conditions or events; and changes in tax laws and governmental regulation.

*Concentration.* Certain Funds may concentrate their investments in only a few securities, industries, companies or countries. In the case of the Opportunities Series of the Private Equity Fund, each class of such series will make a single investment in equity securities of a particular portfolio company. Such concentration by these Funds, series and/or classes may cause a proportionately greater loss than if their investments had been spread over a larger number of investments.

*Use of Substantial Leverage.* Certain Funds utilize substantial leverage in connection with their investment and trading activities. The more James River causes these Funds to incur leverage, the more likely a substantial change will occur, either up or down, in the value of the Funds’ net asset value. As a result, a relatively small movement in market prices of the assets held and instruments traded by the Funds can result in immediate and substantial losses in their values. Turbo Multi Strategy II Ltd. in particular currently utilizes embedded leverage through its derivatives transactions of approximately 3.5 times the net asset value of the Fund, although different leverage has been used in the past and may be used for new

trades depending on leverage availability. Such leverage may be obtained through various means, including options, swaps, and other derivative instruments.

*Leveraged Exposure to Fees of James River Multi-Strategy Fund Ltd.* James River's investment approach for the classes of units and shares of the Turbo Funds involves a call option with a major bank with the return tied to the performance of James River Multi-Strategy Fund Ltd. Since the option provides derivative exposure to James River Multi-Strategy Fund Ltd. that is 3.5 times the amount of the premium paid by Turbo Multi Strategy II Ltd., fees paid to James River by James River Multi-Strategy Fund Ltd. will reduce the option value, and thus the return of a class of units or shares of the Turbo Funds, by an equivalent multiple. For instance, if a trade gives a class of units or shares of the Turbo Funds exposure to shares of James River Multi-Strategy Fund Ltd. that is 3.5 times greater than the amount invested by Turbo Multi Strategy II Ltd. in the trade, the holder of those units or shares will effectively bear 3.5 times the management fee to which the shares of James River Multi-Strategy Fund Ltd. are subject.

*Role of Directors of James River Multi-Strategy Fund Ltd.* Although James River, in its capacity as investment manager of James River Multi-Strategy Fund Ltd., is responsible for recommending the selection of Sub-Funds and Sub-Fund Managers, the allocation of assets among them and the redemptions from Sub-Funds and Sub-Fund Managers (as well as for handling other day-to-day administrative functions as described herein), such recommendations will be subject to the approval of the Fund's directors. The directors' retention of such an approval right differentiates the Fund from most hedge funds of funds organized as companies, as the directors of such companies typically delegate full investment discretion to the applicable investment manager. The Fund's directors have no experience of collaborating with each other or James River with respect to such investment decisions, and there can be no assurance that they will do so effectively. James River may not agree with the decision of the Fund's directors. The performance of the Fund will in part be dependent on the quality of service provided by its directors.

*Dilution.* Investing in private companies is subject to the risk of material dilution. This dilution can result from the company's unanticipated need of additional financing, foreclosure by creditors, adverse litigation outcomes draining the company's resources and numerous other factors. Because private companies typically have limited financial resources, events which could be easily absorbed by larger capitalization public companies can force private companies to take steps which result in the positions of existing investors being severely comprised, and often without existing investors having the opportunity to maintain their investments by making an additional investment.

*Unequal Access to Deal Flow for the Private Equity Fund.* Access to "deal flow" — being introduced to, and having a chance to invest in, select issuers — is crucial to the success of any venture capital fund such as the Private Equity Fund. In many cases, private companies will not seek competitive bids for their securities or solicit more than a strictly limited number of investors to invest in such companies. Many market participants will have much greater access to private deal flows than will James River and Summit Action LLC.

James River and Summit Action LLC have entered into an agreement with Summit Series pursuant to which the Private Equity Fund will be offered numerous investment opportunities sourced by Summit Series. However, Summit Series may offer a limited number and/or unsuitable opportunities to the Private Equity Fund. There is no certainty that any of the portfolio companies introduced by Summit Series will meet the Private Equity Fund's acquisition criteria. In the event that the Private Equity Fund is unable to secure any or sufficient opportunities from Summit Series, or where the opportunities are of lower quality than expected, the Private Equity Fund may not be in a position to source sufficient attractive opportunities or the ones sourced may be of lower quality, which could adversely impact its performance.

*Long and Uncertain Position Durations.* It is the nature of venture capital investing that the positions taken by the Private Equity Fund will generally be significantly long-term and uncertain in nature. As there is no liquid market for the securities of such private companies, the Private Equity Fund will need to await some "catalytic event" — *e.g.*, a buy-out or IPO — to be able to realize any gain on its investment in a portfolio company.

*Non-Consummation of Portfolio Company Investment.* Each series and class of the Private Equity Fund is subject to the risk of the investment in a particular portfolio company not being consummated or being consummated without the series' or class' participation. In such situation, the Private Equity Fund will return client capital to the relevant investors. Such return of capital, however, will be subject to reduction for any expenses incurred by the series or class or James River on behalf of the series or class prior to the investment's failure, minus any reimbursement received from the portfolio company.

*Follow-On Investments for the Private Equity Fund.* A series of the Private Equity Fund may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in portfolio companies. There can be no assurance that a series will wish to make such follow-on investments or that a series will have sufficient capital to do so. Further, with respect to the Opportunities Series, each class of such series will only make a single investment in a particular portfolio company. As a result, no class of the Opportunities Series will be able to make such follow-on investments, but other series of the Private Equity Fund with which such class co-invested in the portfolio company (or another class within the Opportunities Series) may be able to do so. Any decision not to make follow-on investments or the inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish such series' proportionate ownership in such portfolio company and thus its ability to influence such portfolio company's future management.

*Voting and Disposition.* James River and Summit Action LLC, rather than the investors of the Private Equity Fund, will make all decisions regarding the voting and disposition of equity securities of portfolio companies.

*Distressed Credit.* Some Funds may invest in securities of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems,

or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. 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. These investments also may be adversely affected by U.S. state and federal laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, and the U.S. bankruptcy court's power to disallow, reduce, subordinate, or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those in other securities markets.

*Arbitrage Transaction Risks.* Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. James River may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent the Funds employ leverage. Arbitrage trading is often highly leveraged due to the small absolute price differentials which it seeks to exploit. Consequently, arbitrage traders can be particularly vulnerable to a reduction in credit availability. Moreover, arbitrage strategies often depend upon identifying favorable "spreads," which can also be identified, reduced or eliminated by other market participants.

*Convertible-Securities Arbitrage Risks.* Convertible-securities arbitrage generally involves acquiring convertible securities and selling short a corresponding amount of the underlying equity security, although this relationship may be reversed. There are many associated risks that can affect the results of this strategy, including, but not limited to, the following: (i) dramatically rising interest rates or escalating market volatility may adversely affect the relationship between securities; (ii) convertible securities tend to be significantly less liquid and have wider bid/offer spreads, making it more difficult to enter and profitably exit such trades; and (iii) convertible arbitrage involves an inherently imperfect and dynamic hedging relationship and must be adjusted from time to time (the failure to make timely or appropriate adjustments may limit profitability or lead to losses).

*Event-Driven Strategy Risk.* In its event-driven strategy, if and when James River determines that it is probable that a proposed transaction will be consummated, certain Funds will purchase securities at prices often only slightly below the anticipated value to be paid or exchanged for the securities in the proposed merger, exchange offer, cash tender offer or other similar transaction. The purchase price to the Funds may be substantially above the prices at which such securities traded immediately prior to the announcement of such merger, exchange offer, cash tender offer or other similar transaction. If the proposed merger, exchange offer, cash tender offer or other similar transaction appears likely not to be consummated or in fact is not consummated or is delayed, or if the value of a transaction is reduced, the market price of the security to be tendered or exchanged may, and likely will, decline sharply by an amount greater than the difference between a Fund's purchase price and the anticipated consideration to be paid. In addition, where a security to be issued in a



merger or exchange offer has been sold short in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may force the Funds to cover its short sale, with a resulting, and perhaps significant, loss.

*Relative Value Strategy Risk.* The Funds may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying the Funds' trading positions were to fail to converge toward, or were to diverge further from, James River's expectations, the Funds may incur a loss. Even pure "riskless" arbitrage can result in significant losses if the arbitrage is not sustained (due, for example, to margin calls) until expiration, and the Funds will rarely engage in pure arbitrage as opposed to relative value trading (which is inherently a higher-risk strategy).

In implementing "relative value" strategies, the Funds seek to reduce exposure to the risk of overall market price movements (or "beta"), but is fully exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of its valuation models.

*Directional Trading.* Certain of the positions taken by James River may be designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

*Spread Trading Risks.* A portion of the Funds' trading operations will involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. In periods of trendless, stagnant markets and/or deflation, many alternative investment strategies have materially diminished prospects for profitability.

*Borrower Default; Insufficient Collateral for the Lending Funds.* Many, if not all, of the Loans which a Lending Fund may make will be structured as senior debt obligations of the borrower and are intended to be fully or partially collateralized by assets of a borrower (although certain Loans may be subordinated to senior lenders). However, in the event of a default, the ability of a lender to access the collateral securing the Loan, if any, or otherwise recover its investment may be limited by bankruptcy and other insolvency laws. The value of the collateral may decline subsequent to a Lending Fund's investment in the Loan. There is no assurance that the collateral could be readily liquidated or that the liquidation of the collateral would satisfy the borrower's obligation in the event of nonpayment of scheduled interest or principal.

*Uncertain Recovery Value of Collateral for the Lending Funds.* To the extent a Loan made by the Lending Funds is secured, a substantial component of James River's analysis of

the desirability of making such Loan relates to the estimated residual or recovery value of such Loan in the event of the insolvency of the borrower. This residual or recovery value will be driven primarily by the value of the underlying assets constituting the collateral for such Loan. The value of collateral can, however, be extremely difficult to predict and in certain market circumstances there could be little, if any, market for such assets. Moreover, depending upon the status of these assets at the time of a borrower's default, they may be substantially worthless. The types of collateral owned by the borrowers to which the Lending Funds will make Loans will vary widely.

*General Risks of Real Estate Collateral.* In making Loans secured by real estate, the Lending Funds will be subject to all of the risks inherent in investing in real estate and real estate-related investments. These risks may include, without limitation, general and local economic and social conditions, fluctuations in real estate values, the financial resources of tenants, vacancies, changes in tax, zoning, building, environmental and other applicable laws, real property tax rates, changes in interest rates and the availability of mortgage funds.

*Pre-Payment Risk for the Lending Funds.* Pursuant to a Loan agreement, a borrower may be required in certain circumstances, and may have the option at any time, to prepay the principal amount of the loan, generally without incurring a penalty. The rate of such prepayments may be affected by, among other things, general business and economic conditions, changes in interest rates and the financial status of the borrower. In the event a prepayment occurs, the relevant Lending Fund's investment may not be as profitable, if at all, as it would have been had the borrower not prepaid the Loan.

*Lack of Loan Ratings for the Lending Funds.* The Loans made by the Lending Funds will not be rated by recognized rating organizations. Because of the collateralized and/or guaranteed nature of most Loans that James River intends the Lending Funds to make, James River believes that ratings of any other securities issued by a borrower will not necessarily reflect the relative quality of a borrower's Loans. James River may, but is not required and generally does not intend to, consider such ratings in determining whether to make a Loan to a particular borrower.

*Lender Liability Considerations for the Lending Funds.* A number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). In general, lender liability is founded upon the premise that the lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower. The Lending Funds may become subject to allegations of lender liability in respect of a Loan. The Lending Funds cannot provide assurance that these claims will not arise or that it will not be subject to significant liability if a claim of this type did arise.

*Loan Participations for the Lending Funds.* A Lending Fund may invest in loan participations. The purchaser of a loan participation generally does not have a contractual relationship with the borrower of the underlying Loan. As a result, the loan participant is generally dependent upon the lender to enforce its rights and obligations under the loan

agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a syndicated loan also may not have voting rights as such rights are typically retained by the lender. In addition, a loan participant is dependent upon the lender to pay its percentage of principal and interest payments received on the underlying loan, and is therefore subject to the risk of default not only with respect to the borrower but also the party from which it purchased the loan participation.

*Usury Risks for the Lending Funds.* The interest rate on a Loan could exceed, or be viewed by a court as exceeding, the maximum interest rate permitted under state law, thus exposing the Lending Funds to loss of interest payments and other penalties.

## **9. DISCIPLINARY INFORMATION**

Neither James River nor any of its principals or executive officers has been the subject of any material legal or disciplinary events since James River's inception, except with respect to the single disclosure below:

Effective October 25, 2006, Paul Saunders, then President of James River Securities Corp., James River's affiliated broker-dealer, entered into a letter of acceptance, waiver and consent with the Financial Industry Regulatory Authority Inc. , or "FINRA," formerly known as the National Association of Securities Dealers, or "NASD," and collectively referred to in this brochure as "FINRA." The letter settled allegations that Mr. Saunders, "failed to observe high standards of commercial honor and just and equitable principles of trade in violation of NASD rule 2110," commonly referred to as "conduct unbecoming a member," in relation to the use of variable annuity contracts held in the names of various funds to "market time" mutual funds. In the settlement agreement, FINRA did not make allegations or findings of any securities law violations, nor did FINRA suggest that any investor in any James River affiliated fund suffered any loss or damage in connection with Mr. Saunders' activities, and to the contrary, investors in the funds whose trading was managed by Mr. Saunders benefited from the trading. Furthermore, all mutual fund market timing activities ceased in 2003. Mr. Saunders, who had no prior disciplinary history in the preceding 25+ years in the securities and commodities industry, settled these allegations without admitting any of the allegations or findings for the purpose of avoiding a protracted FINRA proceeding with resulting business disruption and costs. As part of the settlement, Mr. Saunders paid a fine of \$1,500,000, disgorged profits of \$750,000 and was suspended for 60 days from acting on behalf of any broker-dealer. This means that Mr. Saunders was not able to engage for such 60 day period in any activities on behalf of James River Securities Corp. However, this suspension did not affect Mr. Saunders' other activities or responsibilities on behalf of James River's fund management business or any of the Funds.

## **10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

James River is registered with the Commodity Futures Trading Commission, or "CFTC," as a commodity pool operator and commodity trading advisor and is a member of the National

Futures Association, or “NFA.” Paul Saunders, Kevin Brandt and Laura McGrath, who are principals of James River, are registered with the NFA as associated persons of James River.

James River is affiliated with a number of related entities which provide various services to the Funds:

- James River Securities Corp. is a registered broker dealer and a member of FINRA that acts as a selling agent for the Funds and is responsible for marketing interests in James River Funds and certain other securities in the United States. James River Securities Corp. is also registered with the NFA as an introducing broker. Paul Saunders and Kevin Brandt are principals, part-owners, registered representatives and associated persons of James River Securities Corp. Laura McGrath is President, Chief Compliance Officer, principal and a registered representative of James River Securities Corp.
- James River Financial Corp. is registered with the CFTC as a commodity pool operator and commodity trading advisor and is a member of the NFA. James River Financial Corp. primarily performs research, client support, compliance, and other back-office services for the Funds. Paul Saunders and Kevin Brandt are registered with the NFA as associated persons and principals of James River Financial Corp. Laura McGrath is registered with the NFA as a principal of James River Financial Corp. and serves as its Chief Compliance Officer.

Each of the above listed entities is wholly owned by the principals of James River, Paul Saunders and Kevin Brandt.

James River acts as manager for and/or advises several Funds. In addition, James River acts as manager or sponsor but not an investment adviser to private investment funds other than the Funds described herein. As manager or sponsor James River is responsible for operational, administrative, marketing, and investor relations matters. James River personnel spend significant time on James River’s sponsorship services. James River serves as manager or sponsor to the following entities in which clients may be solicited to invest:

- James River Multi-Strategy Fund Ltd.
- Turbo Multi-Strategy LLC
- Turbo Multi Strategy II Ltd.
- James River Financing Fund LLC
- James River Financing Fund II LLC
- Summit Action Fund LLC

This list does not include those partnerships and limited liability companies for which James River serves as general partner or managing member, as applicable, that are liquidating, inactive, closed or proprietary.

## **11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

As an SEC-registered adviser, James River has adopted a Code of Ethics pursuant to the SEC's Rule 204A-1. The Code of Ethics, which is also referred to in this brochure as the "Code," includes a Personal Investment and Trading Policy and a Statement on Insider Trading. The Code of Ethics covers James River's policies as they relate to:

- standards of business conduct required of James River personnel consistent with James River's fiduciary obligations to the Funds;
- requirements for James River personnel to comply with applicable federal securities laws;
- procedures requiring the reporting of certain transactions in securities;
- policies for the periodic reporting of and review of James River personnel's personal securities transactions and holdings;
- procedures requiring James River to report violations of the Code of Ethics; and
- requirements for James River personnel to review and acknowledge receipt of the Code of Ethics.

The Code defines material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code includes policies and procedures on issues of security as they relate to sensitive and confidential materials and record retention of all documents and electronic information.

Although James River currently does not manage any Funds that trade directly, James River has procedures designed to mitigate the conflicts arising from the trading of James River and its principals and employees in certain of the same securities which in the future may be directly traded by James River's clients. In addition to the reporting requirements for personal trading discussed above, James River maintains a "restricted list" of securities for which one or more individuals at James River may have material non-public information and a "watch list" of securities that James River is closely analyzing or that are anticipated to be traded for the account of a Fund. Transactions in securities on either such list generally may be executed only upon the receipt of pre-approval from the Chief Compliance Officer, and the Code also generally limits trading in securities at or near the time of trading in the same securities on behalf of clients. The Code allows for exceptions to the requirements with

regard to trading in watch list securities subject to conditions designed to ensure that trading of principals and employees is consistent with client trading and that client trades are given priority.

All principals and employees of James River must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

James River's Code of Ethics is available to investors and potential investors upon request.

### **Conflicts of Interest**

The summary provided below details some of the conflicts of interest associated with an investment in the Funds, however, it does not attempt to describe all such conflicts. The confidential private placement memorandum and offering materials for each Fund contains a more complete description of what James River believes to be the most significant conflicts of interest associated with an investment in the relevant Fund.

*Principal Transactions.* In its role as investment advisor to the Funds, James River and its principals and employees make investment decisions for the Funds. James River, its affiliates or a fund in which they hold a 25% or greater equity interest may occasionally sell securities to or buy securities from the Funds. For the Multi-Strategy Funds of Funds, principal transactions may take the form of an investment by a Multi-Strategy Fund of Funds into another fund in which the ownership of James River and its affiliates exceeds 25%, or, a transfer of an interest in an underlying private investment fund between Funds, if the ownership of James River and its affiliates in one or both of the Funds exceeds 25%.

With respect to the Private Equity Fund, James River, Summit Action LLC and/or their respective principals have made certain investments in portfolio companies on behalf of the Private Equity Fund prior to the initial closing date of Summit Action Fund LLC – Series 1, which we refer to as “Warehoused Investments.” The owners of any Warehoused Investments (*i.e.*, James River, Summit Action LLC and/or their respective principals) have information regarding the Warehoused Investments which was not available to prospective investors in Summit Action Fund LLC – Series 1. By making a capital commitment to such series, each investor in Summit Action Fund LLC – Series 1 has been deemed to have agreed that it did not wish to receive any such information, would not rely on such information if received, and that it had determined to make a capital commitment to that series regardless of whether such information was or may have been material to the investor's determination to do so. As a means of anticipating the conflict of interest associated with the Warehoused Investments, each Warehoused Investment was sold to Summit Action Fund LLC – Series 1 at cost.

Principal transactions will be completed in compliance with applicable law. In analyzing principal transactions, James River will have a conflict between acting in the best interests of the client and assisting itself or its affiliate by selling or purchasing a particular security. Any principal transaction must be approved by the relevant client or in the case of a Fund, the Fund's investors or an independent committee or representative on their behalf.

In addition, James River's compliance policies provide that James River's Chief Compliance Officer must approve any principal transaction.

*Fund Investments with Affiliated Funds.* James River may invest on behalf of a Fund in another fund or other private investment fund for which James River serves as manager or sponsor. James River receives fees from these affiliated funds and therefore has a conflict between its duty to seek the most favorable investments for its Funds and its interest in generating fee income for itself. In addition, investments with affiliated advisors may enable James River to invest or contract with a new advisor who might, in the absence of a Fund's capital investment, not be willing to accept such investment or enter into such contract. Furthermore, the Multi-Strategy Funds of Funds' investment may make the affiliated advisor more attractive to other investors and thus increase the capital invested with such affiliated advisor and thus the fees earned by James River. Finally, James River's dealings with these affiliated advisors will not be conducted at arm's length.

*Other Accounts of James River.* James River may in the future manage and advise investment vehicles other than the Funds. These accounts may be managed on terms that differ significantly from those applicable to the Funds. James River may have financial incentives to favor certain other accounts over the Funds. Even if James River does not do so, it would be required to allocate its limited resources among the Funds and any other accounts that it advises. Certain trades and entire strategies that James River utilizes on behalf of the Funds, as well as many of the positions acquired for the Funds, may be materially different from the trades and strategies which James River implements on behalf of one or more of its other accounts.

James River may in the future advise managed accounts pursuing the same or substantially the same strategy as some of its previous Funds. Although the agreements between James River and holders of these accounts will frequently limit the ability of the investor to terminate the agreement, the holder of a managed account always has the ability to assume control over the account and to liquidate positions in the account. In addition, the holder of a managed account has an inherent ability to see all positions in the account.

*Allocation of Investment and Disposition Opportunities.* The Funds invest or may invest with the same Sub-Funds and Sub-Fund Managers and/or trade or may trade in the same markets with respect to each other. James River may have to allocate limited investment opportunities to some Funds to the possible detriment of other Funds. James River endeavors to treat the Funds fairly and non-preferentially over time. James River will seek to execute orders for all of the participating accounts, including the Funds, on an equitable basis. For further discussion of James River's investment allocation procedures, see Item 12-"Brokerage Practices."

With respect to the Private Equity Fund, James River and Summit Action LLC generally intend to allocate disposition opportunities with respect to a portfolio company between the relevant series and class or other accounts with which a series or class co-invests in proportion to their respective investment amounts in such portfolio company, provided that James River and Summit Action LLC may allocate a disposition opportunity in

a different manner if they determine, in their discretion, that such different manner is appropriate under the circumstances, taking into account (without limitation): (i) the relevant provisions in agreements related to the applicable entities' investment in the portfolio company (such as "tag-along" or "piggy-back" rights); (ii) the amount of gain (or loss), realized and unrealized, on each applicable entity's investment in the portfolio company at the time of such disposition opportunity; (iii) the type of securities held by each entity in the portfolio company; (iv) liquidity needs for each applicable entity and the investment cycle of each applicable entity; (v) respective holding periods for the investment of each applicable entity; (vi) the nature of the disposition opportunity, including the size of the opportunity; (vii) current and anticipated market conditions; (viii) tax, legal or regulatory considerations; and (ix) such other factors that James River and Summit Action LLC determine to be relevant.

*Co-Investment Opportunities.* James River may offer investors the opportunity to invest in limited capacity opportunities identified by James River for certain Funds. Factors relevant in determining such co-investment allocations include: (i) whether the potential co-investor has the financial resources to provide the requisite capital in a timely fashion; (ii) the sophistication and experience of the potential co-investor and its ability to promptly respond to and complete a co-investment opportunity; (iii) the size of the potential co-investor's commitment to/investment in funds managed by James River and the anticipated importance of the potential co-investor to future fundraising efforts on the part of James River; (iv) the ability of the potential co-investor to make a meaningful contribution to the transaction, such as in sourcing or completing the transaction or providing operational skills or insight; (v) the overall strategic benefit of offering a co-investment opportunity to the potential co-investor; (vi) the expertise of the potential co-investor with respect to the geographic location or business activities or industry of the prospective target company; (vii) the reporting, public relations, competitive, confidentiality or other issues that may also arise as a result of the co-investment; and (viii) any other facts or circumstances that James River deems appropriate or relevant. References to James River in this paragraph also include Summit Action LLC with respect to the Private Equity Fund.

Where co-investors participate in such opportunities in parallel with the Funds, it is possible that an investors may have economic or business interests or goals that are inconsistent with those of the relevant Fund, or may be in a position to take (or block) action in a manner that is contrary to the Fund's investment objectives. Similarly, such a co-investor may be able to sell some or all of its interest in a co-investment opportunity while the relevant Fund retains (or is required to retain) its interest, such that the Fund remains at risk to the future performance of the co-investment opportunity while the co-investor has already liquidated its position. If a potential co-investment opportunity is not consummated, the full amount of any expenses relating to such potential but not consummated investment may be borne entirely by the relevant Fund rather than by any prospective co-investors.

*Cross Trades.* James River may cause Funds, or series or classes of a Fund, if applicable, to enter into "cross trades," which are the purchase of securities from, or the sale of securities to, other clients or vehicles (including another series), when James River believes these transactions are appropriate and in the best interest of such Funds, series or



classes. In the event James River wishes to reduce the investment of one or more of the Funds, series or classes in a security and increase the investment of other Funds, series or classes in that security, it may affect the transaction by directing the transfer of securities between clients, Funds, series, classes or accounts, as the case may be. For example, a Fund, series or class may transfer an interest in a private investment fund to another Fund, series or class. In addition, James River may cause a Fund, series or class to purchase or sell an investment that is being sold or purchased, respectively, at the same time by James River, an affiliate, a client of an affiliate or another client of James River.

*James River's Broker-Dealer Affiliate.* James River's broker-dealer affiliate, James River Securities Corp., acts as selling agent to the Funds and may receive compensation from the investor and/or James River for its sales activities. Accordingly, James River Securities Corp. has a conflict of interest in dealing with investors on their investments in the Funds.

*Trade Errors.* Although James River has procedures designed to minimize mistakes made in placing trades, given the amount of trading done by James River on behalf of the Funds, some trade errors are inevitable. James River's general policy with respect to trade errors is to discover and correct any trading errors as quickly as possible. If in spite of best efforts, errors do occur with respect to the direct trades that James River performs on behalf of a client, James River's general policy (except as otherwise may be set forth in a Fund's offering materials) is that James River will be responsible for all losses and the applicable Fund will receive all gains resulting from such trade errors. James River will generally net any such trade errors with respect to the applicable Fund (but not among Funds) on a quarterly basis.

*Material Non-Public Information.* From time to time, James River, Summit Action LLC, and/or their members, officers and employees may come into possession of material non-public information concerning specific portfolio companies in which the Private Equity Fund intends to make, or has already made, an investment. Under applicable securities laws, this may limit James River's or Summit Action LLC's flexibility to buy or sell portfolio securities issued by such companies. Private Equity Fund's investment flexibility may be constrained as a consequence of James River's or Summit Action LLC's inability to use such information for investment purposes. Alternatively, each of James River and Summit Action LLC may decline to receive material non-public information in order to avoid investment restrictions for the Private Equity Fund, even though access to such information might have been advantageous to the Private Equity Fund and other market participants are in possession of such information.

*Loans from James River to a Series.* Under certain circumstances, James River may cause the Lending Funds to borrow funds from a third party or James River. While any interest on a loan by James River to a Lending Fund will be capped at a rate of prime plus 5%, James River, as the potential recipient of interest payments, has a conflict of interest in determining whether to cause the Lending Funds to borrow from a third party or James River.

## 12. BROKERAGE PRACTICES

For the Multi-Strategy Funds of Funds, James River has exclusive responsibility for selecting and monitoring Sub-Fund Managers, subject to the approval of the directors of James River Multi-Strategy Fund Ltd. with respect to such Fund's investments. The Sub-Fund Managers in turn select the securities and other financial instruments to invest in and select the brokers through which to trade. The Sub-Fund Managers, in selecting brokers or dealers and in negotiating commissions to be paid may consider the firm's financial responsibility and reputation, range and quality of the services made available, and professional services, including execution, clearance procedures, and ability to provide supplemental performance, statistical, and other research information for consideration, analysis, and evaluation without any requirement to demonstrate that any factor is of direct benefit to the Funds. Accordingly, the Sub-Fund Managers will determine the commission rates paid to these brokers and the Sub-Fund Managers generally do not execute brokerage transactions solely on the basis of the lowest commission rate available for a particular transaction.

In the event James River manages a Fund that trades on a direct basis, James River will be authorized, without limitation, to select the broker, dealer and other counterparties to effect transactions for such Fund. James River's selection of brokers will be guided by the principal objective of seeking to obtain "best execution" for investors. "Best execution" encompasses a number of factors and does not necessarily mean obtaining the lowest possible price for any particular transaction. While the choice of broker-dealer will often be a function of the facts and circumstances surrounding a particular execution, in general, in seeking "best execution," James River will consider the following factors, in no particular order:

- Commission rates charged by the broker or dealer to execute the transaction and the ability to minimize overall execution costs to the applicable account;
- Likely market impact of the order and James River's opinion as to which broker or dealer is best able to handle the order with minimum adverse market impact;
- Expertise in the specific securities or sectors in which James River seeks to trade;
- Reputation for diligence, fairness, and integrity;
- Quality of research and investment ideas presented to James River by the broker-dealer;
- Adequacy of trading infrastructure, technology and capital; and
- Ability to accommodate any special execution or order handling requirements that may surround the particular transaction.

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment managers who use "soft dollars," *i.e.*, commissions generated by their advised accounts, to obtain investment research and brokerage services from companies that provide lawful and appropriate assistance to the manager in connection with the investment

decision-making process. James River will only enter into arrangements under which it receives products and services in exchange for soft dollars where it reasonably believes that the arrangement falls within the safe harbor of Section 28(e). Where a product or service provided has both “eligible” uses under Section 28(e), *i.e.*, uses related to James River’s investment decision-making process, but also has other uses, James River will make a reasonable allocation between the eligible and non-eligible uses and use soft dollars only for the eligible portion.

Research and brokerage services obtained by the use of commissions arising from portfolio transactions of Funds that trade directly may be used by James River in its other investment activities. Such direct-trading Funds may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided in consideration of the soft dollars generated by its trading. James River will be specifically authorized to direct brokerage to firms that provide such services.

When James River determines that it would be appropriate for a Fund and one or more other Funds managed by James River to participate in an investment opportunity, James River will attempt, to the extent appropriate, permissible and/or feasible, to aggregate multiple orders for the purchase or sale of the same investment instrument in the same direction placed at or around the same time to achieve best execution with respect to all transactions being effected on behalf of various Funds. In general, unfilled orders to buy or to sell a particular investment instrument in the same direction that James River receives at the time a transaction in that investment instrument is to be executed on a particular day will be aggregated and/or any additional orders that James River receives prior to full execution of an order will be added to the unfilled portion. Transactions will be allocated *pro rata* to the Funds participating promptly following execution or pursuant to pre-determined allocation ratios in the event James River determines that *pro rata* allocation is not appropriate under the particular circumstances. Non-*pro rata* allocation of investment opportunities among multiple Funds will be made (if at all) in James River’s discretion and based on factors it deems appropriate including, without limitation, the relevant Fund’s strategies and investment objectives, regulatory considerations, relative capitalization and cash availability, risk and leverage parameters, diversification requirements, counterparty credit documentation issues, ramp-up periods for newly established or restructured Funds, minimum investment criteria or the relevant investment time horizon and liquidity requirements.

To the extent that orders remain unfilled following allocation, the unfilled amounts are combined with subsequent orders for allocation of subsequent transactions. James River will supervise the allocation of transaction costs and investment instruments among the Funds. The Chief Compliance Officer will review trading activity to ensure that James River is not unfairly favoring any Funds. Determination of whether an allocation is unfair will depend on the individual facts and circumstances and the Funds’ needs and objectives. In allocating trades among Funds, James River will make every reasonable effort to allocate trades fairly and equitably over time in view of the different requirements, leverage, risk parameters and current positions of the Funds.

### **13. REVIEW OF ACCOUNTS**

All positions for Funds that trade indirectly through an allocation to one or more other investment managers are reviewed on a monthly basis by at least one of James River's principals or senior management personnel. If applicable, all positions for Funds that trade directly and for which James River serves as investment adviser will be reviewed at least daily by at least one of James River's principals or senior management personnel. All investment decisions and major strategy decisions are approved and/or executed by a principal and/or senior management of James River or their designee, currently Jason Brock Saunders for the Private Equity Fund.

James River or its designated agent provides each investor in each Fund with periodic reports in accordance with the terms of the relevant confidential private placement memorandum, the relevant constituent documents and other offering materials. These reports to Fund investors (other than those invested in the Private Equity Fund) generally include a monthly report summarizing Fund performance and, to the extent the information is reasonably available, the net asset value of an investor's shares and/or capital account; detailed annual audited financial statements; and necessary tax information, if applicable. In addition, James River will provide an investor with weekly and/or monthly estimates of the net asset value of an investor's shares and/or capital account, upon request by an investor and to the extent this information is reasonably available. Each investor in the Private Equity Fund will receive a quarterly unaudited statement of account, an annual audited financial statement, necessary tax information, if applicable, and a quarterly account statement from a qualified custodian showing the overall holdings of the class or series of interests held by the investor.

### **14. CLIENT REFERRALS AND OTHER COMPENSATION**

James River and/or the Funds may engage selling agents, including James River's affiliate, James River Securities Corp., to distribute the interests in the Funds to institutional and high net worth individual clients in the U.S. and abroad on a non-exclusive basis. The selling agents make efforts to procure investments in the Funds and distribute marketing materials, offering documents, and other Fund materials. For these services, a selling agent may receive an upfront commission from the investor based on a percentage of the net asset value of the investor's investment in a Fund and/or a portion of the fees or allocations received by James River from the Fund for James River's advisory services. These arrangements vary by Fund and by selling agent and selling agents may receive anywhere between 20-50% of James River's fees.

### **15. CUSTODY**

Under Rule 206(4)-2 of the Investment Advisers Act of 1940, James River is deemed to have custody of the securities and other assets of the Funds even though James River does not physically hold the securities and other assets and these securities and assets are not held or registered in James River's name. James River is exempt from many of the provisions of Rule 206(4)-2 because the Funds are audited in accordance with U.S. generally accepted

accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Except as noted below, audited financial statements will be distributed to each investor within 120 days, in the case of Funds that trade directly, and are distributed to each investor within 180 days, in the case of the Multi-Strategy Funds of Funds, after the conclusion of each Fund's fiscal year end. For the Private Equity Fund, James River will not rely on the audit exception, but instead has arranged for a qualified custodian to send a quarterly account statement directly to the Private Equity Fund's investors and be subject to a surprise audit.

## **16. INVESTMENT DISCRETION**

Pursuant to the governing documents of the Funds other than the Private Equity Fund and James River Multi-Strategy Fund Ltd., James River, as investment manager, has complete investment authority with respect to all securities owned by the Funds and clients do not place any limits on this authority. Investment authority for the Private Equity Fund is shared with Summit Action LLC, and the directors of James River Multi-Strategy Fund Ltd. have responsibility for approving James River's selection of recommended Sub Fund and Sub-Fund Managers, the recommended allocation of assets among them, redemptions from Sub-Funds and Sub-Fund Managers and hedging transactions made on behalf of James River Multi-Strategy Fund Ltd. In all cases authority is conveyed by investors subscribing to the Funds in their subscription agreements and in the Funds' governing documents.

## **17. VOTING CLIENT SECURITIES**

Although James River currently does not trade directly on behalf of a Fund, James River may from time to time be requested and has the authority to vote proxies on behalf of an investment fund in its capacity as an investor in an underlying fund managed by a Sub-Fund Manager. In addition to solicitations in connection with equity securities of traditional operating companies, proxy voting is also deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities. In voting proxies, James River is guided by general fiduciary principles. James River's goal is to act prudently, solely in the best interest of its clients. James River attempts to consider all aspects of its vote that could affect the value of the investment and where it votes proxies, James River will do so in a manner that it believes will be consistent with efforts to maximize the value of its client's positions. The investment advisory agreements, including in the case of domestic funds limited partnership agreements and limited liability company agreements between James River and the Funds, authorize James River to vote proxies on behalf of the Funds on a discretionary basis.

James River promptly reviews proxy material to evaluate the issues presented. Regularly recurring matters are usually voted as recommended by the issuer's board of directors or management but there are many circumstances that might cause James River to vote against these proposals. These would include among others, excessive compensation, unusual

management stock options, preferential voting and poison pills. James River decides these issues on a case-by-case basis.

James River may on occasion determine to abstain from voting a proxy or a specific proxy item when it concludes the potential benefit of voting is outweighed by the cost or when it is not in the applicable Fund's best interest to vote.

### **Conflicts of Interest**

In furtherance of James River's goal to vote proxies in the best interest of the relevant Fund, James River follows procedures designed to identify and address material conflicts that may arise between James River's own interests and those of the relevant Fund before voting proxies on its behalf. Although such procedures are generally only applicable to those Funds for which James River trades directly, these procedures will also apply to the extent James River is requested to vote on behalf of an investment fund in its capacity as a Sub-Fund investor.

James River monitors the potential for conflicts of interest both as a result of personal relationships, significant client relationships or special circumstances that may arise during the conduct of James River's business.

To the extent a conflict of interest is identified with respect to an issuer, James River will not vote proxies relating to such issuer on behalf of a Fund until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described below. James River's Chief Compliance Officer will determine whether a conflict of interest is material. A conflict will be considered material to the extent that the conflict has the potential to influence James River's decision making in voting the proxy. Materiality determinations will be based on an assessment of the particular facts and circumstances. James River's Chief Compliance Officer will maintain a written record of all materiality determinations.

If it is determined that a conflict of interest is not material, James River may vote proxies notwithstanding the existence of the conflict. If it is determined that a conflict of interest is material, one or more methods may be used to resolve the conflict, including disclosing the conflict to investors in the Fund and obtaining their consent before voting; engaging a third party to recommend a vote with respect to the proxy based on an application of James River's policies; or another method that is deemed appropriate under the circumstances. James River will maintain a written record of the method used to resolve the material conflict of interest

Investment adviser clients of James River or investors in a Fund may request a copy of the James River's Proxy Voting Policy, as well as relevant proxy voting records, by contacting Laura McGrath, James River's General Counsel and Chief Compliance Officer, at 58 Broad Street Road, Manakin Sabot, Virginia 23103.

## **18. FINANCIAL INFORMATION**

Not Applicable.

