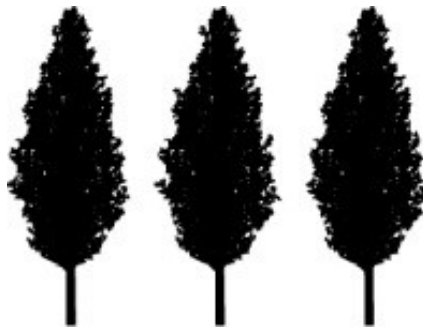


Form ADV – Part 2A

Brochure

March 2021



FOREST HILL CAPITAL, LLC

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Little Rock, Arkansas 72202

(501) 663-4491

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This brochure provides information about the qualifications and business practices of Forest Hill Capital, LLC (“Forest Hill”, “we” or “us”). If you have any questions about the contents of this brochure, please contact us at (501) 663-4491. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

A copy of this brochure and additional information about Forest Hill are also available on the SEC’s website www.adviserinfo.sec.gov. Forest Hill has been registered as an investment adviser with the SEC since 2004. Our registration does not imply a certain level of skill or training.

Item 2 – Material Changes

Forest Hill is required to make clients aware of information that has changed since the last annual update to the Firm Brochure (“Brochure”) and that may be important to them. Clients can then determine whether to review the brochure in its entirety or to contact us with questions about the changes.

We last revised our Form ADV Part 2A in March 2020. We have updated this brochure to update the Firm’s regulatory assets under management and other updates that we do not consider material; however, we encourage everyone to read this Form ADV Part 2A in its entirety.

We urge you to carefully review any notice of material amendments to this Disclosure Brochure in the future as it will contain important information that may pertain to, among other things, changes to our advisory services, fee structures, business practices, conflicts of interest, or disciplinary history.

We will ensure that you receive a summary of material changes, if any, to this and subsequent disclosure brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes, if any, no later than April 30 each year. At that time, we will also offer a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

Item 3 – Table of Contents

Item 1 – Cover Page.....	1
Item 2 – Material Changes	2
Item 3 – Table of Contents	3
Item 4 – Advisory Business.....	4
Item 5 – Fees and Compensation	5
Item 6 – Performance Based Fees and Side-by-Side Management	6
Item 7 – Types of Clients	7
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	7
Item 9 – Disciplinary Information	14
Item 10 – Other Financial Industry Activities and Affiliations	15
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	16
Item 12 – Brokerage Practices.....	16
Item 13 – Review of Accounts	18
Item 14 – Client Referrals and Other Compensation.....	18
Item 15 – Custody	19
Item 16 – Investment Discretion	19
Item 17 – Voting Client Securities	19
Item 18 – Financial Information	20

Item 4 – Advisory Business

Forest Hill was established in 2000 to manage internal partner capital as well as that of a few select investors. Over the years, the firm has grown to serve clients worldwide, including foundations and endowments, pension funds, high net worth individuals, and family offices. Forest Hill has been registered as an investment adviser with the SEC since January 2004.

Mark A. Lee, Founder and principal owner of Forest Hill, has served as Chief Investment Officer as well as Senior Portfolio Manager since inception. The firm oversees approximately \$362,458,751 in total regulatory assets under management as of December 31, 2020 via multiple alternative investment strategies on a discretionary basis, specializing in long/short equities. The firm does not manage any client assets on a non-discretionary basis. The firm currently advises two Delaware limited partnerships and a British Virgin Islands business company (the “fund clients”), as well as separately managed accounts for clients such as high net worth individuals (“managed account clients,” and, together with the fund clients, the “clients”). Investment subscriptions are private transactions made available only to the firm’s employees and affiliates, accredited investors, and qualified clients.

Forest Hill tailors its advisory services to the needs of its clients, and adheres to the investment strategy set forth in each client’s private placement memorandum or managed account agreement. Our fund clients’ private placement memoranda allow for investing in a broad array of securities and financial instruments to the end of achieving their investment objectives. For our managed account clients, we first gather information on each individual client to understand its investment objective and financial situation. We then execute an advisory agreement that defines that client’s investment objective, which we follow conscientiously. Such advisory agreements, together with the offering documents of our fund clients, are referred to herein as our clients’ “governing documents.”

The firm serves as general partner and investment manager of its fund clients and as investment manager to its managed account clients. The Investment Manager currently pursues two investment strategies described below.

Forest Hill Select Strategy

Forest Hill Select Fund, L.P., established in January 2002, pursues the Forest Hill Select Strategy (“FHS”), a long biased, long/short equity strategy predominantly focused on investing in the common equity of publicly traded companies that are headquartered or have meaningful operations in the United States. FHS’s returns are dependent upon individual stock selection and the tactical portfolio management of the collective exposure levels. FHS seeks to profit from long investments that are purchased at discounts relative to historical averages with the expectation of mean reversion due to improving financial performance. FHS seeks to profit from short investments that are overvalued and are expected to experience deterioration in financial performance. FHS is designed to achieve a more favorable long-term risk adjusted return versus the broader equity market.

Forest Hill Strategic Value Strategy

Forest Hill Strategic Value Fund, L.P. (the “Master Fund”), beginning date of November 1, 2013, and Forest Hill Strategic Value Offshore, Ltd. (the “Feeder Fund”), beginning date of November 1, 2018, operate in a mini-master fund structure and pursue the Forest Hill Strategic Value Strategy (“FHSV”), established in February 2009 via a separately managed account to recapture value in healthy community and regional business focused banks that were negatively impacted during the industry’s devaluation resulting from the global financial crisis of 2008. FHSV pursues a directionally long investment strategy dedicated to deploying capital in the common equity of publicly traded community and regional banks located primarily in the United States that possess strong capital ratios, trade at discount valuations relative to historical averages, and have the ability to enhance shareholder value through execution of offensive consolidation strategies. FHSV seeks investments in attractively positioned business focused banks located in viable markets that are expected to benefit from diminished competition and a more favorable pricing environment. Investment returns are dependent upon individual stock selection, portfolio construction and tactical management.

We do not participate in wrap fee programs.

This firm brochure is not an offer to invest in our clients.

Item 5 – Fees and Compensation

Forest Hill is compensated as general partner or investment manager generally based on a percentage of assets under management and performance-based fees. Our basic fee schedule is as follows:

Forest Hill Select Fund, L.P.: Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.5% of the value of the capital account of each limited partner on the first day of the month. Forest Hill takes from each capital account (and reallocates to its own account as general partner) an annual performance-based profit allocation in an amount equal to 20% of a capital account’s net annual return for its fiscal year, subject to a high water mark provision. Fees are generally non-negotiable.

Forest Hill Strategic Value Fund, L.P.: Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.0% of the value of the capital account of each limited partner on the first day of the month with respect to each Series A limited partner interest and at an annual rate of 1.25% of the value of the account on the first day of the month with respect to each Series B limited partner interest. Forest Hill takes from each capital account (and reallocates to its own account as general partner) an annual performance-based profit allocation in an amount equal to 20% of an account’s net annual return for its fiscal year, subject to a high water mark provision and a non-cumulative 5% annual hurdle rate. Fees are generally non-negotiable.

Forest Hill Strategic Value Offshore, Ltd.: Forest Hill charges and deducts a monthly management fee, payable in advance, at the annual rate of 1.0% of the value of the each sub-account at the Master Fund level corresponding to each shareholder's sub-series of shares on the first day of the month with respect to each Series A Share and at an annual rate of 1.25% of the value of each sub-account at the Master Fund level corresponding to each shareholder's sub-series of shares on the first day of the month with respect to each Series B Share. Forest Hill takes from each sub-account at the Master Fund level corresponding to each shareholder's sub-series of shares (and reallocates to its own account as general partner) an annual performance-based profit allocation in an amount equal to 20% of each sub-account at the Master Fund level corresponding to each shareholder's sub-series of shares net annual return for its fiscal year, subject to a high water mark provision and a non-cumulative 5% annual hurdle rate. Fees are generally non-negotiable.

Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P./Forest Hill Strategic Value Offshore, Ltd. bear all of their own expenses. Such expenses include, if applicable, but are not limited to: fund administration including accounting, audit, and legal expenses, filing fees, brokerage commissions, custody fees, taxes, proxies and interest charges on debit balances. For more information on brokerage transactions and costs, please see Item 12: Brokerage Practices.

Although fees are generally non-negotiable, we have entered into side letter arrangements with certain investors in our client funds, in which we have granted them, among other things, preferential terms related to asset-based management fees or performance-based compensation.

Each fund client's private placement memorandum contains further details on fees and expenses charged to the fund and the capital accounts of the limited partners or shares of investors.

Separately Managed Accounts: Fees on separately managed accounts are negotiable and detailed in the investment management agreement for each account. Accounts can be tailored to the specific needs of the institutional investor or other managed account client. Forest Hill generally charges management and performance-based fees on such accounts. Accounts are billed quarterly in arrears based on month-end account values or quarterly in arrears based on the quarter-end account value for management fees, and performance fees are billed at the end of each performance period, as such term may be defined in the investment management agreement for each account.

None of our clients pay performance-based compensation in advance. Neither our firm nor our principals or employees receives any transaction-based compensation for the sale of securities or other investment products.

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

Forest Hill charges a performance-based fee in the form of a profit allocation to Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P. that is non-negotiable and detailed further in Item 5 above and in each fund client's private placement memorandum. Managed account clients, under investment

management agreements with Forest Hill, have negotiable terms for performance-based fees. Some of our managed account clients do not pay performance-based compensation.

All performance-based fee arrangements are intended to comply with SEC Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Act”). The performance fees are generally charged annually (or at the end of a performance period, in the case of separately managed accounts), but only to the extent that such profits for each limited partner or institutional client exceeds any loss carried forward from prior years. As Forest Hill is compensated on the trading profits, this fact may create an incentive for Forest Hill to make investments on behalf of the limited partners in the funds or the account owner that are riskier or more speculative than would be the case without a performance-based fee arrangement.

We do not believe that investors are subject to a risk that Forest Hill will favor funds or accounts on the basis of performance fee arrangements, as our funds and separately managed accounts have limited overlapping investments and different investment objectives.

Item 7 – Types of Clients

Forest Hill provides investment advisory services to three fund clients and various managed account clients, as described above in Item 4.

Interests in the fund clients, which are collective investment vehicles sponsored by Forest Hill, are not registered under the Securities Exchange Act of 1933, as amended, and the fund clients are not registered as “investment companies” under the Investment Company Act of 1940, as amended. Accordingly, interests in the fund clients are privately offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, and for minimum investment amounts, as set forth in the applicable private placement memorandum.

Investor services for the separately managed accounts are available to managed account clients that meet the eligibility and suitability requirements and the minimum investment requirements set forth in the applicable managed account agreement negotiated with Forest Hill.

Generally, the minimum investment is \$1,000,000 for our fund clients. We have the discretion to, and on occasion do, accept investments for a lesser amount. The minimum investment is negotiable for services requiring a separately managed account under a managed account agreement.

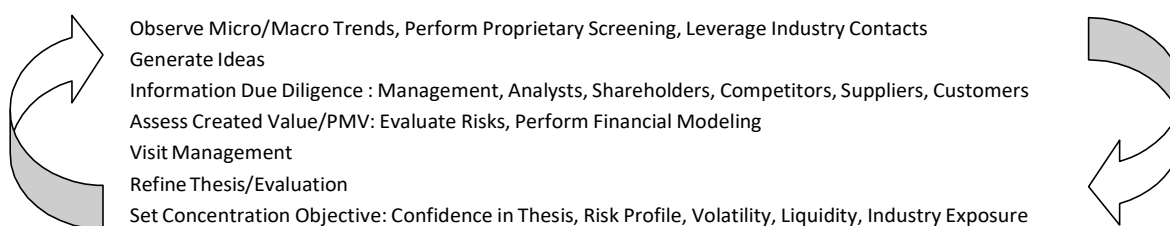
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Forest Hill Select Strategy

FHS is a value-based, long/short public equity strategy driven by a comprehensive fundamental research process. FHS engages in the purchases of securities as well as selling securities short, investing across all

major sectors of the economy (e.g., financials, energy, industrials, basic materials, consumer cyclical & non-cyclical, communications, utilities and technology). The strategy targets long investments in high quality management teams operating solid long-term businesses that possess manageable levels of debt are in a position to generate attractive cash flows and trade at deep discounts to what we believe to be their true intrinsic value. Emphasis is placed on companies that possess multiple positive catalysts that should enhance financial performance. We look to redeem investment capital when value has been recognized and the then-current inherent risk of investment outweighs the magnitude of future returns. The strategy targets short sales in companies that the manager believes have reached peak financial performance, are overvalued, and are expected to face near-term business challenges that should serve to negatively affect the current level of profitability.

The research process for FHS involves the following:



Mark Lee, Chief Investment Officer, and Joseph Perrone, Portfolio Manager, oversee the day-to-day investment management of Forest Hill Select Fund, L.P. However, Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. In addition, Mr. Lee maintains all trading authority.

Forest Hill Select Fund, L.P. seeks to construct and manage an investment portfolio of publicly traded companies that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measures to minimize investment risk, the fund does carry the possibility of loss, which an investor must be willing to bear.

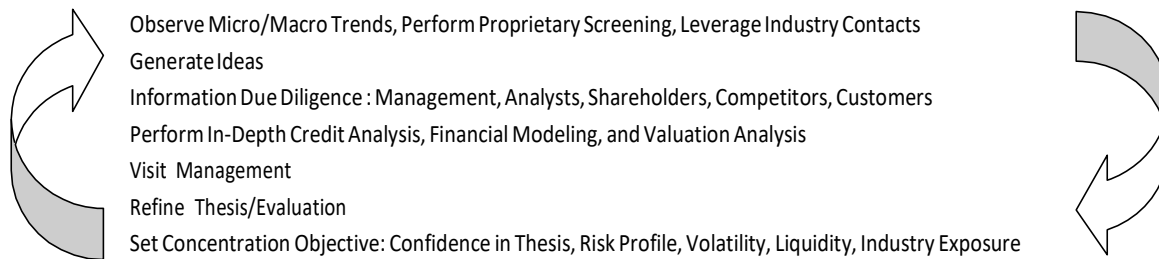
For a discussion of material risks associated with the Fund’s investment strategy, see “Risk Factors” below. For a discussion of additional risks facing the Fund, see the Fund’s private placement memorandum, which contains more discussion regarding methods of analysis and risks of loss.

Forest Hill Strategic Value Strategy

FHSV is a public equity strategy driven by a comprehensive due diligence process that seeks to invest in healthy community and regional banks that, despite growing market share, are trading at deep discounts compared to their historical averages of price-to-tangible book value. The strategy’s cornerstone investment theme is centered upon mean regression of value for the healthiest and most dominant community/regional banks in the industry. FHSV primarily invests in banks that possess experienced, high quality management teams, strong capital ratios, and offensive consolidation strategies. Emphasis is

placed upon investing in banks that serve local and regional business customers, possess low-cost deposits and hold loans with short term maturities or variable rate credits. Although FHSV is predominately a dedicated long investment strategy, the manager does employ short selling tactics in an effort to enhance investment returns.

The research process for FHSV involves the following:



Mark Lee, Chief Investment Officer, oversees the day-to-day investment management of Forest Hill Strategic Value Fund, L.P. Mr. Lee has final authority over all portfolio decisions, including investment selection, sizing of investments, sector allocations, and portfolio gross and net exposures. Mr. Lee maintains all trading authority.

Forest Hill Strategic Value Fund, L.P. seeks to construct and manage an investment portfolio of publicly traded banks that possess attractive risk/reward characteristics. The manager implements daily risk controls that include the analysis of liquidity, valuations, exposures, and overall portfolio construction. Despite the extensive measure to minimize investment risk, the strategy does carry the possibility of loss, which an investor must be willing to bear.

For a discussion of material risks associated with the Fund’s investment strategy, see “Risk Factors” below. For a discussion of additional risks facing the Fund, see the Fund’s private placement memorandum, which contains more discussion regarding methods of analysis and risks of loss.

Risk Factors

Investing in any securities involves a risk of loss that our clients and investors in our fund clients must be prepared to bear. Please see below for an explanation of the investment strategies we employ and some of the significant risks associated with them. The governing documents of each of our clients discuss these risks in further detail.

Certain risks associated with an investment in any client we advise include:

- *Investment Judgment and Market Risk:* The success of our investment programs depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment programs will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. The use of short sales and

option trading can, in certain circumstances, substantially exacerbate the impact of unfavorable price movements on our clients' investments. Also, changes in the general level of interest rates may negatively affect our clients' results.

- *Financial Markets and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of investment management organizations, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the private investment fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our clients' interests.
- *Lack of Diversification:* Since Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P. will primarily invest in securities of banks, each client's portfolio will not necessarily be widely diversified, the investment portfolio of the client may be subject to more rapid changes in value than would be the case if the client were required to maintain a wide diversification among companies, securities and types of securities.
- *Equity Securities:* We buy equity securities on behalf of our clients, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Consequently, our clients may suffer losses if we invest in equity instruments of issuers whose performance diverges from our expectations or if equity markets generally move in a single direction and we have not hedged against a move in that direction (see below for an explanation of hedging).
- *Short Selling:* A short sale involves the sale of a security that the client does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the client must borrow the security, and the client is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the client. When the client makes a short sale in the United States, it must leave the proceeds thereof with the broker and must deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are affected on a Non-U.S. exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. In addition, a short sale involves the risk that borrowed securities will have to be returned to the lender at a time when such securities cannot be borrowed from other sources, potentially requiring the client to close a short sale transaction at an inopportune time or under disadvantageous circumstances. The client has no policy limiting the amount of its capital it may deposit to collateralize its obligation to replace borrowed securities sold short.

- *Options:* We sometimes invest in options on behalf of our clients. There are risks associated with the sale and purchase of options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period.

An option's value may decline because of passage of time, the value of its underlying asset changing, changes in the market's perception as to the underlying asset's future price behavior or any combination of these factors.

At times, we may invest in over-the-counter options. Over-the-counter options are two-party contracts under which the buyer and seller negotiate the price and other terms. The risk of nonperformance by the opposing party on over-the-counter options is typically greater than the risk of nonperformance on exchange-traded options. In addition, the market for over-the-counter options is relatively illiquid, particularly for small transactions, which may impair our ability to sell our clients' options at profitable prices.

- *Hedging Transactions:* At times, we engage in hedging transactions on behalf of our clients. Employing hedging techniques reduces a portfolio's vulnerability to various risks. Hedging entails determining certain risks in one's portfolio and making trades to offset those risks. For instance, if an investor buys stock in a company, it may also short the stock of a competitor company. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of these positions decline, but rather it establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. On the other hand, hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase.

The success of a client's hedging strategy is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. There is a risk that we may not always choose the right variable to hedge against. For example, a client may own stock in an oil and gas company and bet that the price of oil will fall as a hedge, only to find out that the company's main asset is gas. Also, it is important to note that we may not always choose to hedge against, or might not anticipate, certain risks, and, our clients' portfolios will always be exposed to certain risks that cannot be hedged.

Loss of the ability to hedge, from either a change in the law or an inability to borrow a security when necessary, may result in losses to our clients from the resulting unhedged exposure or depreciation in the retained instrument's value.

Many other investment strategies we employ can be used as hedging techniques, such as options, futures contracts and short selling.

- *Short-term Trading:* In furtherance of our clients' investment strategies, we sometimes engage in short-term trading on our clients' behalf. Short-term trading involves a certain degree of risk. Short-term trading denies a client the strategy of minimizing risk by holding a position over a longer time period. In addition, frequent trading results in high turnover and brokerage commission expenses which can adversely affect a client's performance if its trading is not sufficiently profitable.
- *Undervalued Assets:* We typically invest in assets on behalf of our clients that we believe are undervalued. However, identifying investment opportunities in undervalued assets is difficult and we cannot assure any clients that we will be able to recognize or acquire undervalued assets. While investments in undervalued assets offer our clients the opportunity for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

In addition, we may need to sell assets that do not end up being undervalued at a substantial loss. We may also need to sell assets before they reach their anticipated values in order to fulfill withdrawal requests or pay certain fees or taxes. Often times, we must hold undervalued assets for a substantial period of time before realizing their anticipated value. During this period, a portion of a client's capital is committed to the undervalued assets it has purchased, possibly preventing it from investing in other opportunities. Further, at times, we finance the purchase of undervalued assets with borrowed funds and thus the client pays interest on the borrowed funds while waiting for the assets to reach their anticipated value.

- *Investment in the Banking Industry:* The results of operations of banking institutions are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open-market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings, and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, a client cannot predict possible future changes in interest rates, deposit levels, and loan demand on banking institutions' business and earnings.

Banking institutions could be affected by the actions and commercial soundness of other financial services institutions. Financial services institutions that deal with each other are interrelated as a result of counterparty or other relationships. Although banking institutions may have credit exposure to many different industries and counterparties, they routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, a default by, or even concerns about, one or more financial services institutions could lead to significant market-wide liquidity problems, or losses or defaults by other institutions.

The U.S. banking industry is highly regulated under federal and state law. Insured banking institutions are subject to the regulation and supervision of one or more of the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), and state banking authorities. This regulation will affect the

operations of a client. Investors in our clients should understand that the primary goal of the U.S. bank regulatory regime is the protection of depositors, the public, and the FDIC insurance fund, not the protection of shareholders of and investors in banks, such as a client. Federal, state, and local legislators and regulators regularly introduce measures that would modify the regulatory requirements applicable to Depository Institutions, their holding companies, and other financial institutions. Given the current disruption in the financial markets and regulatory initiatives that may be proposed by the U.S. administration and Congress, new regulations and statutes that may affect banking institutions are increasingly likely, including additional compensation restrictions and possibly significant changes to the structure of financial industry regulation.

- *ETFs:* Shares of exchange traded funds (“ETFs”) and other similar instruments may be purchased or sold short by the Fund. An ETF is an investment company that is registered under the Investment Company Act of 1940, as amended (the “Company Act”), that holds a portfolio of common stocks designed to track the performance of a particular index. ETFs sell and redeem their shares at net asset value in large blocks (typically 50,000 of its shares) called “creation units.” Shares representing fractional interests in these creation units are listed for trading on national securities exchanges and can be purchased and sold in the secondary market in lots of any size at any time during the trading day.

Investments in ETFs and other instruments involve certain inherent risks generally associated with investments in a broadly-based portfolio of stocks including the risk that the general level of stock prices may decline, thereby adversely affecting the value of each unit of the ETF or other instrument. In addition, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or number of stocks held. Because ETFs and pools that issue similar instruments bear various fees and expenses, the Fund’s investment in these instruments will involve certain indirect costs, as well as transaction costs, such as brokerage commissions. The General Partner considers the expenses associated with an investment in determining whether to invest in an ETF or other instrument.

Investment managers of mutual funds and ETFs selected by the General Partner will generally be entitled to a fee based on net assets under management. Any such fees charged by an investment manager of a mutual fund or ETF in which the Fund invests are in addition to the Management Fee and the Performance Allocation of the General Partner and will reduce the Fund’s assets accordingly.

- *Foreign Securities:* Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our clients’ income. Additionally, when investing in foreign bonds, there is always a risk that their issuer will default and be unable to pay the interest and/or

principal payments due on the bonds, as the financial stability of foreign issuers may be more precarious than that of U.S. issuers.

Finally, non-U.S. markets have different clearance and settlement procedures which, in some markets, have difficulty keeping pace with large volumes of transactions. This can lead to substantial delays and settlement failures that could adversely affect our clients' performance.

- *Trade Errors:* Unless we determine, in our sole discretion, that a trade error was the result of our willful misconduct, gross negligence or bad faith, any losses associated with a trade error that are not recovered from a third party will be borne by our clients. Any gains associated with a trade error will remain with our clients.
- *Cybersecurity Risk.* The information and technology systems of not only our firm but also our clients' portfolio companies or third-party service providers may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although we have implemented, and portfolio companies and service providers have likely implemented, various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, our firm, our clients, portfolio companies and/or service providers, as applicable, may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our firm's, our clients', portfolio companies' and/or service providers' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors in our clients (and, to the extent applicable, the beneficial owners of investors). These failures could harm our firm's, our clients', a portfolio company's and/or a service provider's reputation, subject any of these entities and their respective affiliates to legal claims and otherwise affect their business and financial performance.

Item 9 – Disciplinary Information

Neither we, nor any of our directors, officers or principals has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither we, nor any of our directors, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither we, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.

Item 10 – Other Financial Industry Activities and Affiliations

Forest Hill is the general partner and investment manager of the fund clients, Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P./Forest Hill Strategic Value Offshore, Ltd. Further details of the fund clients, including investment strategies, are described in their respective private placement memoranda and other offering documents. Forest Hill does not believe the contemporaneous management of the fund clients above and separately managed accounts, of which Forest Hill is the investment manager, causes a conflict of interest, as our funds and separately managed accounts have limited overlapping investments and different investment objectives.

While our position as general partner and investment manager of our clients gives us heightened control and discretion over our clients, we manage any potential conflicts of interest by strictly adhering to the investment strategy and investment allocation policy discussed in their governing documents.

Neither our firm nor the principal is registered as a broker-dealer or a representative of a broker-dealer, nor has an application pending to register as a broker-dealer or a registered representative of a broker-dealer. Neither our firm nor the principal is registered, or nor has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Neither our firm, nor the principal nor any of our directors or officers has any material relationship with any of the following:

- broker dealer, municipal securities dealer, or government securities dealer or broker;
- other investment adviser or financial planner;
- futures commission merchant, commodity pool operator or commodity trading advisor;
- banking or thrift institution;
- accountant or accounting firm;
- lawyer or law firm;
- insurance company or agency;
- pension consultant;
- real estate broker or dealer; or
- sponsor or syndicator of limited partnerships.

We do not recommend or select other investment advisers for our clients.

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

Forest Hill is committed to the highest standards of ethical behavior. Our Code of Business Conduct and Ethics (the “Code”) details the principles that guide our business and the conduct of employees. We have adopted our Code pursuant to SEC Rule 204A-1. The Code is designed to ensure compliance with laws, avoid conflicts of interest, ensure each employee understands the duty of loyalty to investors, as well as protection of investor or client information.

Neither Forest Hill nor its principal or employees are prohibited from buying and selling securities for their own account and are allowed to take positions different than those of advised client accounts. Principal and employees are prohibited from owning securities also owned by client accounts to avoid potential conflicts of interest. Forest Hill maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest. We maintain certain policies and procedures designed to prevent the principal or employees from misusing material non-public information or trading the same security ahead of the client accounts.

Forest Hill additionally maintains a Compliance Manual (the “Manual”) which supplements the Code and is distributed to each employee upon hire date. The Code and Manual is updated on an annual basis and executed by each principal and employee acknowledging that they will abide by the Code and Manual at all times. The Code details how principals and employees are required to have duplicate copies of their personal trading accounts and trade confirmations sent to Forest Hill for review by the Chief Compliance Officer (“CCO”) and principal of the firm at a minimum of a calendar quarter basis. New employees must submit a list of their personal security holdings and a copy of their statement at hire date. Principal and employees are required to notify the CCO immediately once they are in receipt of material non-public information for review and monitoring. We will not be able to use such information for the benefit of any client account or principal or employee. Personal trades by the principal and employees must obtain pre-clearance approval by the CCO and principal before they can be executed in a personal account.

A written copy of our Code can be obtained by contacting us at Forest Hill Capital LLC, 100 River Bluff Drive, Suite 430, Little Rock, Arkansas 72202.

Item 12 – Brokerage Practices

Forest Hill has complete investment and brokerage discretion. We are responsible for the selection of portfolio transactions of the funds and the managed account clients. These portfolio transactions are expected to incur a substantial amount of brokerage commissions or other transaction-based fees. Forest Hill is responsible for the negotiation of such commissions and fees, all of which will be paid by the clients.

Securities transactions are executed by brokers selected by Forest Hill in its sole discretion and without the consent of the clients. In performing portfolio transactions, we will seek to obtain the best execution for the clients based on a number of factors, including the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the

operational efficiency with which these transactions are effected, taking into account the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

Forest Hill occasionally pays higher prices for the purchase of securities from or accepts lower prices for the sale of securities (markups or markdowns) to brokerage firms that provide it with such investment and research information, and occasionally pays higher commissions to such brokers if we determine such prices or commissions are reasonable in relation to the overall services provided. Research services could include both services generated internally by a broker's own research staff and services obtained by the broker from a third-party research firm. Forest Hill receives a benefit from such research as we do not have to produce or pay for the research, products or services and we believe such research usage ultimately benefits the clients. Research includes reports and analyses concerning specific issuers, industries, or sectors; market, financial and economic forecasts and other data; and statistics and pricing services. It periodically includes discussions with research personnel and invitations to attend conferences or meetings with management or industry consultants. Information so received is in addition to and not in lieu of services required to be performed by Forest Hill, and we do not need to weigh any of these factors equally in our broker selection. The research-related services can be utilized by Forest Hill in connection with other investment services provided to other client accounts. The availability of research benefits could influence us to select one broker rather than another to perform securities transactions rather than clients' interest in best execution and obtaining these research benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

Forest Hill is party to a "soft dollar" arrangement with our prime brokerage firm, pursuant to which the cost of certain research and other services and products used by Forest Hill is paid with commissions generated by securities transactions in client accounts. The products and services available from the broker include both internally generated items such as research reports prepared by the broker's research staff as well as items acquired by the broker from third parties such as quotation equipment, industry periodicals, company specific conference reports and transcripts. Section 28(e) of the United States Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities. The use of soft dollars would have the effect of enhancing the returns associated with such client accounts from the returns that would exist absent such uses. Forest Hill's usage of soft dollars paid by client accounts may benefit all client accounts and not just the accounts paying up for the securities transaction under the soft dollar arrangement. While we do not aim to allocate soft dollar benefits to each client account in proportion to the soft dollar credits each client generates, we do seek to allocate soft dollar benefits equitably among all of our clients. The receipt of such soft dollar benefits could incentivize us to select a broker for the benefit rather than the client's interest in receiving best execution.

Through our relationship with brokers, periodically a broker refers investors to one of Forest Hill's investment strategies. Some referrals are subject to formal compensation agreements. These referrals could give us an incentive to select a broker based on our interest in receiving referrals for client accounts, rather than the client account's interest in receiving most favorable execution. Forest Hill will compensate brokers on what we consider to be an arm's-length basis.

We do not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer.

Forest Hill will act in a fair and equitable manner in allocating securities transactions among client accounts. Trades are typically aggregated to brokers if the investment opportunity or portfolio holding is held in more than one client account. We typically allocate shared portfolio holdings between different client accounts on a proportional basis based on net asset value of the shared client accounts. If client accounts have targeted parameters, such as position size, we allocate based on reaching such target parameters between the accounts. Such aggregation of orders may not be to the benefit of individual client accounts on a stand-alone basis.

Item 13 – Review of Accounts

The accounts of fund clients and managed account clients are reviewed on a continual basis by Forest Hill and at a minimum on a monthly basis. Various levels of review are performed based on factors such as position size and exposures, short and long term rates of return, investment diversification and risk allocation and statistics, as well as the overall outlook for securities markets. The Portfolio Managers and the Chief Compliance Officer of Forest Hill perform all account reviews.

Each investor receives monthly or quarterly account statements and commentary with detailed performance returns. Investors in the fund clients receive an annual audited financial statement for the fund in which they invest, along with information necessary to complete their annual federal income tax return, if applicable. Additionally, investors can contact Forest Hill for additional information requests.

Our managed account clients have access to daily trade execution information and account information from their prime brokers.

Item 14 – Client Referrals and Other Compensation

Forest Hill does pay qualified persons for client referrals under a formal compensation arrangement. Compensation for such referrals is set at a negotiated rate of the management and performance fees generated from the referred client's assets placed in separately managed accounts or referred investor's assets in Forest Hill's fund clients. Each referral arrangement is designed to comply with SEC Rule 206(4)-3. Additionally, see further discussion of broker referrals to Forest Hill in Item 12 above.

Item 15 – Custody

While it is Forest Hill's practice not to accept or maintain physical possession of our client's assets, we are deemed to have custody of the assets of our fund clients (Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P./Forest Hill Strategic Value Offshore, Ltd.) under Rule 206(4)-2 of the Act because we have the authority to access our fund clients' funds and deduct fees and expenses from clients' accounts.

Funds and securities are held by unaffiliated qualified custodians (banks or brokers) as referenced by the Act. Forest Hill receives monthly statements from the qualified custodians for Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P. and individual investors in the fund clients do not receive statements from the custodians. Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P./Forest Hill Strategic Value Offshore, Ltd. are audited by independent public accountants on an annual basis. Forest Hill's investors in separately managed accounts receive monthly statements directly from the qualified custodians. Additionally, our managed account clients receive statements from Forest Hill and are encouraged to compare the account statements from us with the statements received from the qualified custodian directly.

Item 16 – Investment Discretion

Pursuant to investment management agreements or private placement memoranda and subscription documents, Forest Hill has been granted discretionary authority to manage the securities accounts of its clients. Forest Hill Select Fund, L.P. and Forest Hill Strategic Value Fund, L.P. place no restrictions on our discretionary authority, other than that we are committed to adhering to the investment strategy and program set forth in each of our clients' offering documents. Investors with investment management agreements for separately managed accounts can negotiate restrictions relevant to their account.

Item 17 – Voting Client Securities

As required under SEC Rule 206(4)-6, Forest Hill follows an established policy to vote proxies on behalf of client accounts. Our proxy policy is to vote for the recommendation of management unless we become aware of circumstances that indicate it would be in the best interests of our clients to vote otherwise. In the event of a conflict of interest between us and a client, we will vote in the best interests of the client. Forest Hill retains relevant information as part of its books and records relating to proxies voted.

Retention or delegation of voting rights for managed accounts can be negotiated by institutional and other qualified clients under their respective investment management agreements for their separately managed account.

A written copy of our proxy policy and how we voted client securities can be obtained by contacting us at Forest Hill Capital LLC, 100 River Bluff Drive, Suite 430, Little Rock, Arkansas 72202.

Item 18 – Financial Information

Forest Hill is not aware of any financial condition that is expected to affect its ability to manage client accounts.

Forest Hill has never been the subject of a bankruptcy petition.

Forest Hill does not require, nor does it solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.