

**Item 1 – Cover Page**

---

## **ALTA FUNDAMENTAL ADVISERS LLC**

### **Part 2A of Form ADV: Firm Brochure**

---

March 2021

**This brochure provides information about the qualifications and business practices of Alta Fundamental Advisers LLC (“AFA”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration with the SEC does not imply that AFA or its employees possess a certain level of skill or training. The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Our oral and written communications are intended to provide you with information which you may use to determine to hire or retain us to provide investment advice.**

**If you have any questions about the contents of this brochure, please contact Scott Pritchard at (212) 319-1778 or by email at [spritchard@altafundamental.com](mailto:spritchard@altafundamental.com).**

**Additional information about AFA is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 – Material Changes**

---

We have no material changes to report since our prior filing dated March 2020. Unless otherwise noted, all information herein is given as of December 31, 2020. In the future we will use this section, Item 2, to report any material changes. Clients and prospective clients should read this Brochure carefully in its entirety.

### 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 .....	22
Item 10: Other Financial Industry Activities and Affiliations .....	22
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	22
Item 12: Brokerage Practices .....	23
Item 13: Review of Accounts .....	24
Item 14: Client Referrals and Other Compensation.....	25
Item 15: Custody.....	25
Item 16: Investment Discretion.....	25
Item 17: Voting Client Securities .....	26
Item 18: Financial Information .....	26
Item 19: Requirements for State-Registered Advisers.....	26

#### Item 4 – Advisory Business

---

Alta Fundamental Advisers LLC (“AFA”, the “Adviser”, “we”, “us” or “our”), a Delaware limited liability company, was formed in January 2013 and is managed by its Managing Members, Gilbert Li and Jeremy Carton. AFA provides discretionary investment advisory services to U.S. and non-U.S. clients (collectively, “Clients”), including private investment funds (“AFA Funds” or “Funds”) and separately managed accounts (each a “Separately Managed Account”). The AFA Funds include:

- ☐ Alta Fundamental Advisers Onshore L.P., a Delaware limited partnership
- ☐ Alta Fundamental Advisers Offshore Ltd., a Cayman Islands exempted company
- ☐ Alta Fundamental Advisers Master L.P., a Cayman Islands exempted limited partnership
- ☐ Alta Fundamental Advisers SP LLC, a Delaware limited liability company

AFA provides advice to Clients based on their specific investment objectives and strategies as set forth in the offering memorandum and governing documents of each Fund (collectively the “Offering Documents”) and the investment management agreement between AFA and each Separately Managed Account Client.

Generally, investors in any of the AFA Funds do not have the ability to individually tailor their investments or impose specific investment restrictions. However, when deemed appropriate, a Fund may create a special class of interests or shares to accommodate a particular investor’s or a group of investors’ unique investment restrictions.

The investment objectives, fee arrangements and terms of Separately Managed Accounts are individually negotiated by AFA and the Separately Managed Account Client. Any such Separately Managed Account relationships may be subject to significant account minimums.

AFA may enter into letter agreements or other similar agreements (collectively, “Side Letters”) with one or more Clients which provide such Clients with additional and/or different rights (including, without limitation, with respect to management and incentive fees, incentive allocations, minimum investment amounts, access to information, investment portfolios, and liquidity terms) than other investors. AFA or the Funds will not be required to notify any or all of the other investors of any such classes or Side Letters or any of the rights and/or terms of provisions thereof, nor will AFA or the Funds be required to offer such additional and/or different rights and/or terms to any or all of the other Clients.

AFA does not participate in wrap fee programs.

In 2020, AFA entered into a sub advisory agreement with Belstar Management Company LLC (“Belstar”) to participate in the Term Asset-Backed Securities Loan Facility (TALF) program offered by the U.S. Federal Reserve. Two series were created under Alta Fundamental Advisers SP LLC to purchase AAA-rated asset backed securities which were then submitted to the Fed as collateral in exchange for non-recourse loans. AFA acts as manager and Belstar acts as investment adviser. AFA does not have discretion over the assets in these series.

As of December 31, 2020, AFA had approximately \$367 million of regulatory assets under management on a discretionary basis.

## Item 5 – Fees and Compensation

---

AFA's fee structure for the AFA Funds and Separately Managed Accounts are as follows:

### **Management Fee**

AFA receives a management fee ("**Management Fee**") from the AFA Funds, payable quarterly in advance, generally in the range of 0.00% to 0.50% (0.00% to 2.00% per annum) of the net asset value of the relevant shares or interests in each Fund on the first day of that quarter.

Some Separately Managed Accounts pay a Management Fee which is based on a percentage of assets under management. AFA typically negotiates the annual management fees charged for the management of each Separately Managed Account, which will vary but generally are in the range from 0.00% to 2.00% of net assets per annum. Fees are typically paid quarterly, unless otherwise agreed upon in the investment management agreement.

Any unearned Management Fees are refunded by AFA to the Clients withdrawing from a Fund or Separately Managed Account. The Management Fee may be reduced, waived or calculated differently with respect to certain Clients including employees and affiliates of AFA.

### **Incentive Allocation or Fee**

An affiliate of AFA receives an incentive allocation ("**Incentive Allocation**") from the Funds generally in the range of 10% to 20% of net appreciation (including both realized and unrealized gains and losses) on an annual basis, subject to the recovery of any amount in the loss recovery account (i.e., a high-water mark). The Incentive Allocation is also calculated and payable at the time of an investor's withdrawal or redemption with respect to the amount withdrawn. With respect to those investors in the AFA Funds that have elected to participate in the special investments ("**Side Pocket Investments**") of the AFA Funds, an Incentive Allocation with respect to those Side Pocket Investments will only be made with respect to any realized net appreciation.

Some Separately Managed Accounts pay an Incentive Allocation (or performance-based fee) generally in the range from 10% to 20% of annual net appreciation, which Incentive Allocation may or may not be subject to investment thresholds. Incentive Allocations are based upon the valuation methodology agreed to with each Client.

The Incentive Allocation may be reduced, waived or calculated differently with respect to certain investors in the Funds including employees and affiliates of AFA.

### **Expenses**

AFA is responsible for and will pay all of its internal operating and overhead expenses, including all costs of its personnel, office space, office equipment and supplies.

In addition to the Management Fee and Incentive Allocation or fee described above, each Client shall bear its own investment and operating expenses. Such expenses vary by Fund or Separately Managed Account and generally include, but are not limited to, legal, auditing, accounting and administration fees and all other expenses of the Fund or Separately Managed Account, including, without limitation, due diligence expenses, custodian fees, taxes on securities transactions, interest

on borrowed money, brokerage fees and commissions and any other similar fees, clearing expenses or other fees and expenses. The Funds and Separately Managed Accounts may invest in Exchange Traded Funds or other similar closed end funds, through which the Funds and/or Separately Managed Accounts may incur additional underlying costs and expenses. For a more exhaustive list of expenses paid by the Funds and Separately Managed Accounts, please see the Offering Documents.

Certain of the Fund's expenses may be subject to expense caps as further detailed in the Offering Documents for the relevant Fund. Any expenses incurred on behalf of more than one Client account will be allocated amongst such accounts in proportion to their respective participation in the relevant investment, in proportion to their respective net asset values, or in any manner determined by AFA to be fair and equitable to each Client. The organizational and initial offering expenses of the Funds will either be expensed as incurred or, where permitted by applicable rules, amortized over a period not to exceed 180 months beginning at the commencement of the Master Fund's operations. Expenses that are paid or payable by the Master Fund generally are borne pro rata by the Feeder Funds.

Prospective investors in the Funds should refer to the relevant Fund's Offering Documents for a more complete understanding of how AFA is compensated for its advisory services. The information contained in this Item 5 is a summary only and is qualified in its entirety by the relevant Fund's Offering Documents.

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

---

As noted in Item 5, AFA charges performance-based fees or allocations. AFA will structure any Incentive Allocation arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

AFA will act in a fair and equitable manner in allocating investment opportunities among its Clients and to resolve and mitigate conflicts or potential conflicts in a timely manner. Because AFA has the responsibility for managing more than one account, potentially with different fee structures, potential conflicts of interest can arise.

The Incentive Allocation arrangement may create an incentive for AFA to recommend investments which may be riskier or more speculative than those which would be recommended under a different compensation arrangement. Such fee arrangements may also create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities.

To mitigate the risk of favoring certain Clients over others, AFA has implemented a number of policies and procedures to address these concerns, including a Compliance Manual & Code of Ethics and trade allocation policy. We do not under any circumstance consider fee structures when allocating investment opportunities.

## **Item 7 – Types of Clients**

---

AFA provides discretionary investment advisory services to Clients. Investors in the AFA Funds are generally required to invest a minimum of \$5,000,000; provided that AFA or one of their affiliates, in its sole discretion, may accept investments in an amount less than \$5,000,000.

The AFA Funds are not registered as investment companies under the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”), and are, therefore, not subject to various provisions of the Investment Company Act. Investments in the Funds are not registered for sale under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and are instead sold to qualified investors on a private placement basis. Subscriptions will generally be accepted only from investors who meet the definitions of “Accredited Investor” under Regulation D promulgated under the Securities Act, and “Qualified Clients” eligible to pay performance fees under the Advisers Act and a “Qualified Purchaser” as defined in Section 2(a)(51)(A) of the Investment Company Act.

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

---

### **Investment Objective**

AFA’s investment objective is to achieve returns that exceed the risk-free rate of return regardless of overall conditions in the broader loan, debt and equity markets. We seek to achieve our investment objective primarily by identifying and committing capital to global investment opportunities that possess both intrinsic value and a catalyst to unlock that value.

AFA ordinarily has the discretion to pursue each Client’s investment objective. AFA will seek to identify investment opportunities that offer the prospect of a significant asymmetric risk-adjusted return through investing in situations that, in some cases, may be misunderstood by the broader market, or may fall between the structural biases of the traditional hedge fund and private equity fund models. AFA will place particular emphasis on identifying and exploiting situations in which deeper knowledge of fundamentals offers enhanced returns. We believe that developing a thorough fundamental, research-driven appreciation of a particular company or sector, as well as focusing on investment opportunities possessing a catalyst, can afford the Clients a competitive advantage. AFA plans to employ a nimble approach to capital allocation that permits investment throughout multiple parts of the capital structure with the goal of generating optimal risk-adjusted returns. We also intend to maintain a liquidity profile that permits prompt action to exploit extraordinary investment opportunities.

While AFA invests primarily in accordance with the methodology discussed above, we maintain broad and flexible investment authority.

### **Methods of Analysis**

AFA intends to pursue its investment objective primarily by investing in various loans, debt and equity securities, and other instruments that AFA believes are inefficiently held or financed, are issued by companies undergoing change or are mispriced due to market misunderstanding of risk. In most cases, we will seek to invest assets in companies with a defined existing or anticipated

catalyst (e.g., a restructuring, spin-off, refinancing, etc.) that increases the likelihood of realization of value.

AFA's flexible investment mandate allows for the identification of asymmetric investment opportunities across multiple asset classes. In seeking to identify investment opportunities throughout the capital structure, we expect the Clients to be active at various times in some or all of the following core asset classes: *Distressed Debt, Public Equity, Private Equity, Relative Value, Special Situations and Distressed Real Estate*.

In order to achieve our investment objective, Client accounts are permitted to invest in a broad range of private and publicly traded, U.S. and non-U.S. securities and instruments, including the ability to purchase, hold or sell a wide variety of securities and other investment instruments, including, without limitation, bonds, debentures, notes, loan participations or assignments, preferred stock, common stock, rights, units, warrants, partnership interests, interests in real estate, trade and other vendor claims, mortgages and mortgage-related securities or instruments, contractual obligations and claims, contingent rights, litigation rights and claims, certificates of beneficial interest, liquidation trust certificates in bankruptcies and other situations, put and call options, over-the-counter or listed commodity or equity derivative products, exchange-traded funds, indices, futures, deliverable and non-deliverable foreign currency and other forward contracts and stock exchange indices, swaps, contracts for difference, credit derivatives and other over-the-counter derivative products, commodity interests, limited liability company interests, joint venture interests and any other securities or instruments or assets and liabilities. A substantial portion of the securities and instruments held by AFA's Clients may not be registered or listed on any exchange, and such securities and instruments may have to be held for a substantial period of time before they may be liquidated. From time to time, Clients also may hold cash or cash equivalents.

AFA will monitor each Client's portfolio on each trading day. In conducting its portfolio-monitoring activities, we will rely on a variety of publicly available information, as well as information provided by management and creditors of portfolio companies, brokers, dealers, analysts, professional asset managers, research services and hired consultants and advisers. AFA also may consult with legal and other experts and speak with members of official and unofficial creditor committees of portfolio companies involved in bankruptcy reorganizations and their legal and financial advisers. When deemed appropriate, AFA or its affiliates, principals or employees may seek to serve as members of creditor committees or boards of directors. Such involvement in an issuer's reorganization proceedings or on an issuer's board of directors could result in the receipt of material nonpublic information and the imposition of restrictions limiting AFA's ability to liquidate the position for a significant period of time.

### *Risk of Loss*

Investing in securities entails a high degree of risk and is suitable only for sophisticated investors for whom an investment in the Funds and/or Separately Managed Accounts does not represent a complete investment program and who fully understand and are capable of bearing the risks of such investment. Investors could lose all or substantially all of their investment. Prospective investors should carefully consider the following factors before making a decision to invest.



The following does not purport to be a complete enumeration or explanation of the risks involved or other factors applicable to a determination of the suitability of such an investment for any particular Client or investor. Prospective Clients and investors should review each Fund's Offering Documents, and should consult with their own professional advisors, before deciding to invest in the Funds.

#### *Reliance on Certain Personnel and Principals*

The success of AFA's Clients are dependent upon the talents and efforts of highly skilled individuals employed by AFA and our ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that our investment professionals will continue to be associated with AFA throughout the life of the Funds and/or Separately Managed Accounts. The loss of the services of our key personnel could have a material adverse effect for AFA's Clients.

Except as specifically provided in the Offering Documents, AFA has the exclusive right and power to manage the investments and business and affairs of each Client. As a result, AFA's Clients are dependent upon the Principals in their roles as Managing Members and key employees of AFA, and the loss of either Principal could have a material adverse effect for AFA's Clients.

#### *Investment and Trading Risks*

AFA's investment program might not be successful. There is no assurance that Client accounts will be able to generate positive returns for investors or that the returns generated will be commensurate with the risks of investing in the securities, instruments and strategies described herein, nor can there be any assurance that the returns will be uncorrelated with a traditional portfolio of stocks or bonds. AFA's investment program may entail the use of investment techniques such as leverage, margin transactions, swaps, contracts for difference, short sales, futures, forward contracts, credit derivatives and options contracts, which techniques have the potential to magnify the adverse impact of market moves to which Clients may be subject or cause the Client's net asset value to fluctuate more dramatically than it otherwise would. Investments may be materially affected by economic and financial market conditions occurring globally or in specific countries or markets. These conditions may relate to interest rates, commodity prices, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect negatively the level and volatility of the prices and the liquidity of the Client's investments.

#### *Illiquidity of Portfolio Investments*

A significant portion of Client accounts and portfolios may include loans, securities and other instruments that are not actively or widely traded. In some cases, Client accounts may not be able to readily dispose of such investments or may be able to dispose of them only at a substantial discount to fair value. In other cases, Clients may be contractually prohibited from disposing of such investments for a specified period of time and may be forced to hold such securities and instruments despite adverse price movements. Accordingly, Clients may be forced to sell more liquid positions at a disadvantageous time (e.g., to satisfy Shareholder redemptions), resulting in a

greater percentage of the portfolio consisting of illiquid investments. Further, under adverse market or economic conditions, in the event market participants are aware that Client accounts must sell such investments to raise cash (including to satisfy redemptions), or in the event of adverse changes in the financial condition of the issuer, Clients may find it more difficult to sell such securities when AFA believes it advisable to do so or may be able to sell such securities only at prices lower than if the securities were more widely held or actively traded.

There may be no, or only a limited, trading market for illiquid securities and instruments. As a consequence, each Client's ability to participate in or liquidate such investments may be restricted and the value of such investments may be subject to wide fluctuation. The purchase and sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the purchase and sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Even if the securities are publicly traded, large holdings of securities can often be disposed of only after a substantial length of time, exposing such holdings to risks comparable to the foregoing. Further, companies whose securities are not publicly traded may not be subject to public disclosure and other investor-protection requirements applicable to publicly traded securities. If Clients are represented on creditors' committees or steering committees or the Principals or employees of the Adviser serve on boards of directors of portfolio companies, or if the Adviser or Clients are deemed an "affiliate," an "insider" or a "fiduciary" of a portfolio company or otherwise receives or has access to material nonpublic information regarding a portfolio company, Clients may be restricted from liquidating an investment in such company for an indeterminate length of time.

#### *Loans and Loan Participations*

AFA may invest in bank loans and/or participations in bank loans. These obligations are subject to unique risks, including: (i) the possible invalidation or compromise of an investment transaction as a fraudulent conveyance or preference under relevant creditors' rights laws; (ii) challenges to the validity or seniority of bank claims and guarantees; (iii) lender-liability claims by the issuer of the obligations; (iv) environmental liabilities that may arise with respect to collateral securing the obligations; (v) limitations on the ability of Clients to directly enforce its rights with respect to participations; (vi) long and less certain settlement periods; and (vii) adverse consequences resulting from participating in such instruments with other institutions of lower credit quality. Successful claims by third parties arising from these and other risks would be borne by the Clients. In addition, loan participations involve certain risks beyond those associated with direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. Rather, a holder of a participation in a syndicated loan only obtains rights against the lender. This means that the participant generally has limited or no voting or veto rights, as such rights are generally retained by the lender and that the participant generally has no control rights or rights to force the lender to take any particular action. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement in the event of a borrower default and the participant may not have the right to block actions or object to amendments or modifications of the terms of the loan agreement. In addition, a loan participant is subject to the credit risk of the lender as well as of the borrower, since a loan participant is dependent upon the lender to pay to the participant its percentage of payments of principal and interest received by the lender on the underlying loan. Although AFA will attempt to enter into participations with entities AFA believes to be sound, there can be no assurance that a failure by any such entity will not lead

to a loss to Client accounts. Bank loans and participations held by Clients may have no, or only a limited, trading market. In addition, secondary market liquidity may become constrained during periods of volatility in the credit markets. Illiquid bank loans and participations may trade at a discount to comparable, more liquid investments. In addition, because of the provision of confidential information, the unique and customized nature of a loan agreement and the private syndication of a loan, certain bank loans and participations may not be purchased or sold as easily as publicly traded securities. Bank loans and participations may encounter trading delays due to their unique and customized nature, and transfers may be prohibited without the consent of an agent bank or borrower. Bank loans may become non-performing for a variety of reasons. Non-performing bank loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. Clients may incur additional expenses to the extent it is required to seek recovery upon a default on a bank loan or participate in the restructuring of such obligation. Although the Adviser may exercise voting rights with respect to an individual bank loan on behalf of Clients, there can be no certainty that the Adviser will be able to exercise votes in respect of a sufficient percentage of voting rights to determine the outcome of the vote.

#### *Debt Investments*

AFA's investments may include secured and unsecured loans and other debt instruments. Risks associated with such debt investments include but are not limited to: the absence of or inadequate collateral coverage; inadequate perfection of a security interest; the possible invalidation or compromise of prepayments, collateral, guarantees or other transactions with the borrower as a fraudulent conveyance or preference under relevant creditors' rights laws; the invalidity or lack of seniority of loans or debt or any claims under guarantees; and environmental liabilities that may arise with respect to collateral securing the obligations.

#### *Investments in Distressed Companies*

AFA's investments are expected to include loans, debt, equity and other securities, claims and obligations of companies that are experiencing significant financial or business difficulties (including companies involved in bankruptcy or other reorganization or liquidation proceedings). Such distressed investments involve substantial risks not normally associated with investments in healthier companies, including adverse business, financial or economic conditions that can lead to defaulted principal and interest payments and insolvency proceedings. Clients may lose a substantial portion or all of its investment in a distressed debt or equity interest or, in the case of a reorganization or restructuring of the issuer, may be required to accept cash or securities with a value significantly less than the cost of the Client's original investment. Among the risks inherent in investments in distressed entities is the fact that it frequently may be difficult to obtain information as to the true condition of such entities. Troubled company investments also may be adversely affected by U.S. state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Clients may acquire investments in distressed companies of all types, including equity and debt instruments and, in particular, loans, loan participations, claims held by trade or other creditors, bonds, notes, non-performing and sub-performing mortgage loans, fee interests and financial interests in real estate, partnership interests and similar financial instruments, executory contracts and participations in the foregoing, many of

which may not be publicly traded and many of which may involve a substantial degree of risk. Clients may experience significant losses on these investments in distressed companies or may be required to accept cash or securities with a value significantly less than the cost of the investments. In certain periods, there may be little or no liquidity in the markets for distressed securities or instruments. In addition, the public market prices of distressed securities and prices of private claims and obligations may be subject to periods of abrupt and erratic market movements and significant price volatility, and the spread between the bids and asked prices of such securities may be greater than normally expected. It may take a number of years for the market price of such instruments to reflect their intrinsic value.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals or funding), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution to investors of cash or a new debt or equity security the value of which will be less than the purchase price of the instrument in respect of which such distribution was made. The administrative costs in connection with a bankruptcy proceeding are frequently high and generally will be paid out of the debtor's estate prior to any return to creditors and equity holders. Certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) also may be significant. U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Client's influence with respect to a class of securities could be lost by the inflation of the number and the amount of claims in the class. AFA may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchase has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by Clients. Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy, bankruptcy or reorganization proceedings by the Adviser or its affiliates. To the extent that the Adviser or its affiliates become involved in such proceedings, Clients may have a more active participation in the affairs of the issuer than that assumed generally by an investor. The Adviser or its affiliates may seek representation on creditors' committees or other groups on behalf of Clients, from time to time, subject to any applicable regulations, if the Adviser, in its sole discretion, determines that such representation is necessary or advisable to protect or further Clients' interests. A member of any such committees or groups may owe certain obligations generally to all similarly situated parties that the committee represents. In addition, if Clients are represented on a committee or group, Clients may be restricted or prohibited under applicable law from disposing of their investments in the issuer while they continue to be represented on the committee or group, and potentially for a certain time after leaving the committee or group. In some cases, the Adviser may seek representation on a committee or group but may not get such representation due to the relatively small size of the Clients' investment or other reasons.

Investments in distressed companies domiciled outside the United States involve additional risks. Bankruptcy laws and procedures in foreign jurisdictions may differ substantially from those in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of

such rights, reorganization timing and the classification, seniority and treatment of claims. In certain countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

### *High-Yield and Preferred Securities*

AFA's investments are expected to include high-yield bonds, and convertible and preferred securities (including auction-rate and similar preferred securities) that are rated in the lower rating categories by the various credit rating agencies, or comparable non-rated securities. Securities in the lower-rated categories and comparable non-rated securities are generally subject to greater risk of loss of principal and interest than higher-rated and comparable non-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Such securities are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. The market values of certain of these lower-rated debt securities and instruments tend to reflect individual corporate developments to a greater extent than do higher-rated securities and instruments, which would be expected to be more correlated to fluctuations in the general level of interest rates. High-yield securities also may not be protected by financial covenants or limitations on additional issuer indebtedness. Because investors generally perceive that there are greater risks associated with lower-rated and comparable non-rated securities, the markets for such securities may be more volatile, less liquid, and less active than that for higher-rated securities, which can adversely affect the prices at which such securities can be sold and may even make it impractical or impossible to sell such securities at times of market dislocation. Some issuances may be held by a small number of holders, and there may be little or no liquidity in markets for these securities and instruments even absent market dislocation.

### *Risk Arbitrage*

AFA may engage in risk arbitrage as an investment technique. Risk arbitrage typically involves the purchase and/or sale of a position in a security subject to a merger, acquisition, exchange offer, tender offer, reorganization, liquidation or other potential corporate event. In a typical transaction, AFA may seek to profit from the "spread" between the current market price of the security and the amount to be realized if the potential corporate event occurs. Clients will remain subject to the risks that the anticipated corporate event does not occur or that the Client's hedging to minimize market or company-specific risk is imperfect. Risk arbitrage success will be largely dependent upon the ability of the Adviser to correctly analyze the outcome and the completion date of the potential transaction. In the event the transaction is not consummated, the value of the securities held by Clients may decline significantly. Furthermore, the difference between the price paid by Clients for securities of a company involved in an announced transaction and the anticipated value to be received for such securities upon consummation of the transaction may often be very small. If the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities may decline sharply, potentially by more than the Client's anticipated profit. In pursuing risk arbitrage, Clients will compete with firms, including many of the larger investment banking firms, which have substantially greater financial resources, larger research staffs and more securities traders than the Clients.

### *Small Companies*

AFA may invest a portion of its assets in small and/or unseasoned companies, whether or not publicly traded. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, operating history, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of trading in the securities of smaller companies may be substantially less than is typical of securities issued by larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations, reduced liquidity, losses and risks of insolvency or bankruptcy. AFA may establish comparatively large positions in these companies' securities, representing a high percentage of the outstanding public float; in that case, when selling all or a large portion of its investment position, AFA may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to limited trading volume. Further, research resources, third-party analysis and information relating to smaller companies may be less available than that in respect of larger companies, making it more difficult to research an investment and make an informed investment decision.

### *Real Estate Investments*

AFA may invest in real estate or companies with significant portfolios of real estate holdings. Investments in real estate and companies with portfolios of real estate are often illiquid and generally are subject to various risks incident to the ownership and operation of commercial and residential real estate, and/or risks incident to investment in nonrecourse mortgage loans secured by real estate, including risks associated with: adverse changes in national economic conditions; adverse local market conditions; the financial conditions of tenants, buyers and sellers of properties; changes in availability of debt financing; changes in interest rates, real estate tax rates and other operating expenses; environmental and zoning laws and other U.S. federal or local governmental rules, regulations and fiscal policies; changes in the relative popularity of properties; risks due to dependence on cash flow; risks and operating problems arising out of the presence of asbestos; and risks of natural disasters, uninsurable losses and other factors.

### *Highly Leveraged Companies*

AFA may invest in the equity and/or debt of highly leveraged companies. These investments involve a high degree of risk. A highly leveraged company may be particularly exposed to adverse economic factors such as downturns in the economy or deterioration in the conditions of the company or its industry. Companies that use a significant degree of leverage may be subject to restrictive financial and operating covenants that may constrain the implementation of their business strategies. Moreover, rising interest rates may significantly increase such companies' interest expense, causing losses and/or inability to service outstanding debt. In the event any such company cannot generate adequate cash flow to meet debt service or refinance debt, the Client may suffer a partial or total loss of its investment in the company.

### *Interest Rate Risk; Inflation/Deflation Risk*

Changes in interest rates can affect the value of a Client's investments in fixed-income instruments. Increases in interest rates may cause the value of the Client's debt investments to decline. During periods of rising interest rates, the average life of certain types of securities in which Clients may

invest may be extended, because borrowers choose not to repay principal on the loans to take advantage of a below-market interest rate. This “extension risk” increases the security’s duration (the estimated period until the security is paid in full) and reduces the security’s value. During periods of declining interest rates, an issuer of fixed-income securities may be more likely to exercise its option to prepay principal, which may make an investment less profitable. Instruments held by a Client may have call features that allow the issuer to repurchase the securities before stated maturity. An issuer may redeem a lower-grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the issuer’s credit standing. A Client’s fixed-income investments may be subject to inflation or deflation risk. Inflation risk is the risk that the value of assets or income from the Client’s fixed-income investments will be worth less in the future as inflation decreases the present value of payments at future dates. Deflation risk is the risk that prices throughout the economy decline over time, which may reduce the value of a Client’s portfolio by damaging issuer creditworthiness or increasing the likelihood of issuer default.

### *Credit-Rating Risk*

The ratings assigned by credit-rating agencies to some types of fixed-income obligations measure the issuer’s creditworthiness and affect the value of those obligations. Ratings assigned to fixed-income securities by credit-rating agencies are intended to indicate different levels of risk that a fixed-income security will pay its principal and interest to investors as and when required. Ratings are based on various factors, such as the fixed-income security’s seniority in the issuer’s capital structure, credit characteristics, collateral composition, if any, degree of diversification, weighted average life of the collateral, if any, and the legal structure of the issuer. Credit ratings have limited predictive power. An issuer’s rating is heavily weighted by historical data and does not necessarily reflect future conditions. In addition, the rating agencies may have difficulty rating and monitoring mortgage-related securities through different economic cycles. If rating agencies incorrectly rate, or downgrade ratings on, fixed-income securities, the value of the rated securities may decrease substantially.

### *Fraudulent Conveyance, Preference and Equitable Subordination Considerations*

Various laws enacted for the protection of creditors may be applied to some of a Client’s investments and may sustain losses or incur legal defense costs as a result. Losses may be realized years after the investments were bought or sold by AFA. These creditor-protection laws may be applied to a Client’s investments in bonds or bank loans of distressed companies that go or have gone into bankruptcy, or to equity investments bought or sold by Clients. For example, under U.S. federal and state laws of fraudulent conveyance, if loans made to companies that are insolvent or are rendered insolvent as a result of the transaction that includes the borrowing, the loans or the liens or guaranties that secure such loans may be judicially invalidated, and the borrower’s payments of principal, interest or fees to its lenders or stock dividends or stock repurchase payments may be recouped. Fraudulent conveyance actions may target transfers made as much as six years before the commencement of the fraudulent conveyance action or a bankruptcy case. Similar to fraudulent conveyance actions, preference actions also may be asserted against investors in a failing company. If an issuer in which a Client has an investment becomes insolvent, any payment made by the issuer on such investment, including loan interest, principal or fees, may be subject to disgorgement as a “preference” if made within a certain period of time (which may be as long as one year) before the date the issuer enters bankruptcy. In general, if an issuer’s payments

are found to be either fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. To the extent that any such payments are recaptured from the Client and the Client has no or inadequate recourse to upstream or other parties, the resulting loss would be borne the Client. Under other principles of U.S. bankruptcy law, loans may lose their priority due to “equitable subordination,” which is a remedy whereby a court subordinates the claim of a creditor to claims of disadvantaged creditors. Examples of situations where equitable subordination could be applied are where a lender (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors, (ii) engages in other inequitable conduct to the detriment of other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, other creditors or (iv) uses its influence to dominate or control a borrower to the detriment of other creditors. Under related remedies known as “equitable disallowance” or “lender liability,” a court may disallow the claim of a lender or other creditor that has abused its influence on the borrower, or even require the lender or other creditor to pay affirmative damages for its misconduct. Certain non-U.S. jurisdictions, particularly emerging-market jurisdictions, may have substantially different or less sophisticated systems for resolving corporate insolvencies. Such differences could expose a Client to unanticipated claims, legal risks, costs and delays, any one of which could have an adverse effect on one or more of AFA’s investments.

### *Short Sales*

AFA’s investment program permits short-selling. Short sales may be made, for example, if AFA believes the securities or instruments are overpriced relative to their intrinsic or fundamental value or to other securities or indices that may provide a hedge or are expected to depreciate in value due to a catalyzing event or change in circumstances. Short sales also may be made in connection with the Client’s risk arbitrage investments. In addition, short positions may be taken if, in the view of AFA, such positions will reduce the risk inherent in taking long positions. The extent to which the Client engages in short sales will depend upon the Client’s investment strategy and perception of market direction. An uncovered short sale of an instrument involves the risk of an increase in the market price of the instrument, which could result in an inability to cover the short position or a substantial and theoretically unlimited loss; by contrast, the prospective gain on a short sale generally is limited to the proceeds of the sale. There can be no assurance that the Client will be able to maintain the ability to borrow securities sold short. In such cases, the Client can be “bought in” (forced to repurchase securities in the open market to return to the lender). Furthermore, there can be no assurance that securities or instruments necessary to cover a short position will be available for purchase. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. The rules affecting short sales (and synthetic short sales) in the U.S. and other jurisdictions are constantly evolving in ways that have restricted or may restrict the Client’s freedom to engage in short-selling, which could hamper AFA’s ability to achieve their investment objective.

### *Hedging Transactions*

AFA may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes. While AFA may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance and increased (rather than reduced) risk for Clients than if it had not engaged in any such hedging transactions. Moreover, it should



be noted that a Client's portfolio frequently will be exposed to certain risks that cannot be hedged, such as credit risk relating to issuers and counterparties.

### *Currency Risks*

AFA, or one of its affiliates, will compute a Client's income in U.S. dollars. Since AFA may invest in loans, securities and other instruments denominated or quoted in currencies other than the U.S. dollar, changes in currency exchange rates will affect the value of the Client's portfolio and the unrealized appreciation or depreciation of investments. Further, AFA may incur costs in connection with conversions between various currencies. AFA may seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in hedging transactions. There can be no assurance that instruments suitable for hedging currency or market shifts will be available when AFA wishes to use them or will be susceptible to liquidation when AFA wishes to exit them.

### *Control Issues*

Although AFA may seek protective provisions in connection with certain of its investments, particularly Side Pocket Investments, to the extent Clients take minority or passive positions in companies in which it invests, AFA may not be in a position to exercise control over corporate management and, accordingly, may have a limited ability to protect the Client's investment in such companies. The day-to-day operations of such companies will be the responsibility of the companies' management teams, and there is no assurance that they can operate the companies successfully. In these circumstances and others in which AFA relies on information from corporate management, the investment also will be subject to the risk of dysfunctional or fraudulent management and accounting irregularities. To the extent AFA co-invests with third parties through joint ventures or other entities, such investments may involve risks such as dysfunctional management, increased costs, greater illiquidity and investors with conflicting interests or investment objectives. There also may be the possibility that a third-party co-venturer may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of Clients, or may be in a position to take (or block) action in a manner contrary to the AFA's investment objective.

### *Potential Involvement in Litigation*

AFA or its affiliates may become involved in litigation. Litigation or threats of litigation consume time and resources and may disrupt the ability of AFA and its personnel to carry on their normal investment activities on behalf of Clients. Litigation entails expense and the possibility of counterclaims against Clients, and ultimately judgments may be rendered against Clients for which neither they nor any applicable affiliate carries insurance. The expense of prosecuting claims, for which there is no guarantee of success, and/or the expense of defending against claims by third parties and paying any amounts due pursuant to settlements or judgments would generally be borne by Clients and would reduce net assets.

### *Derivative Instruments; Counterparty Credit Risk*

AFA's investments are expected to include purchases, sales, financing arrangements (including the lending of portfolio securities) and derivative instruments that are not traded on an exchange but are instead traded between counterparties based on contractual relationships. Consequently,

Clients will be subject to the risk that a counterparty will not perform its obligations under the related contracts. The prices of, or payments pursuant to, swaps and other derivative instruments may be highly volatile and may be influenced by, among other things, interest rates, changing supply and demand relationships, policies of governments, and national and international political and economic events. AFA expects to effect certain derivative transactions on “over-the-counter” or “interdealer” markets. The participants in these markets are typically not subject to credit evaluation and regulatory oversight. This will expose AFA to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a credit or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide), since such markets may lack the established rules and procedures for swift settlement of disputes among market participants that exist in exchange-based markets. These factors may cause Clients to suffer a loss due to adverse market movements while replacement transactions are executed or otherwise. Such “counterparty risk” is present in interest rate, currency, default and equity swaps, participations through banks, non-U.S. exchange contracts and distressed debt trades, and is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single or small group of counterparties. Similarly, contracts in the non-U.S. exchange market are not guaranteed by an exchange or its clearinghouse. Consequently, there are no requirements imposed on a counterparty with respect to financial responsibility or segregation of customer positions. As a result, trading in interbank non-U.S. exchange contracts may be subject to more risks than trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which AFA has a forward contract. Transactions entered into by AFA may be executed on various exchanges (domestic and foreign) and may be cleared and settled through various clearinghouses, custodians, depositories and prime brokers. Although AFA will attempt to execute, clear and settle transactions through (and use as custodian for its securities) entities AFA believes to be sound, there can be no assurance that a failure by any such entity will not lead to a loss by AFA.

#### *Trading Restrictions due to Inside Information*

AFA and/or its affiliates may acquire confidential or material nonpublic information or be restricted from initiating transactions in certain securities. Clients will not be free to act upon any such information. Due to these restrictions, AFA may not be able to initiate an investment that it otherwise might have pursued and may not be able to sell an investment that it otherwise might have exited.

#### *Risk Concentration and Risk Management Failures*

AFA is not restricted in the amount of its capital that it may commit to any single investment, strategy, industry sector or geographic region. While AFA generally expects it will attempt to spread investments to avoid undue exposure to any one issuer, security type, market, sector or geographic region, AFA at times may hold a relatively large portfolio concentration in any of the above categories. Any such concentration may increase a Client’s risk of loss and have a material adverse effect on the Client’s overall financial condition. Even when AFA attempts to control investment risks and diversify Client portfolios, risks associated with different assets may be correlated in unexpected ways, with the result that investors may face concentrated exposure to certain risks. Conversely, AFA may encounter unexpected changes in the correlation of assets or markets, or basis risk due to imperfectly matched debt maturities and similar factors, which may

impede AFA's ability to hedge or limit risk and result in investment losses. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. In addition, many private investment funds pursue similar investment strategies, which creates the risk of numerous funds being forced to liquidate positions at the same time, thereby reducing liquidity, increasing price volatility and exacerbating losses. Although AFA will attempt diligently to identify, monitor and manage significant risks, these efforts at times may be ineffective. Any inadequacy or failure in AFA's risk management efforts could result in material losses for Clients.

#### *Investment Due Diligence and Investment Research*

When conducting due diligence and investment research, AFA may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence and investment research process in varying degrees, depending on the nature of the potential investment. In addition, when conducting due diligence and investment research and making an assessment regarding an investment, AFA may rely on information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation and investment research that AFA carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity or may be manipulated by fraud. Moreover, a satisfactory due diligence investigation does not, in and of itself, ensure that an investment will be successful.

#### *Operational Risks*

AFA's, and/or one of its affiliate's, systems and operations will be dynamic and complex. Certain of their operations interface with and will be dependent on systems operated by third parties, including prime brokers, administrators, market counterparties and their sub-custodians and other service providers, and AFA's, and/or one of its affiliate's may not be in a position to quantify the risks or verify the reliability of such third-party systems. Certain operational risks may be intrinsic to AFA and/or one of its affiliate's operations and may impact their financial, accounting or data processing or other systems, especially given the volume, diversity and complexity of the investment transactions in which AFA may engage. Operational risk may be exacerbated in periods of market dislocation or abrupt regulatory change. The failure of one or more systems or operations or the inability of such systems or operations to meet the demands of AFA's evolving activities could have a material adverse effect on the Clients. Clients (and not AFA, and/or one of its affiliates) will ordinarily be responsible for any losses resulting from trading errors and similar human errors, absent bad faith, willful misconduct or gross negligence.

#### *Asset Valuation*

The Funds' third-party administrator (Stone Coast Fund Services) ("**Administrator**") calculates the value of assets and liabilities of each Fund in accordance with the relevant Fund's Offering Documents after consultation with AFA. The value assigned to the securities and instruments held by Clients affect the amount of Management Fee and Incentive Allocation to be paid to AFA and/or one of its affiliates, as well as the reported performance of Clients. Certain of AFA's investments may be difficult to value (including Side Pocket Investments, certain bank loan positions and other unlisted or non-exchange traded securities and instruments). In some cases, in

particular where broker-dealer quotations are few or non-existent, the fair value of an investment may be determined by, among other things, using valuation models and, if necessary, through relative value pricing, other relevant sources deemed reliable by AFA and/or one of its affiliates or the subjective determination of AFA's personnel most familiar with the position in question. Determining fair value in the absence of any market or reliable valuation model can be difficult and subjective, and investments may be sold at prices below any such valuation.

### *Contingent Liabilities*

From time-to-time Clients may incur contingent obligations, particularly in respect of Side Pocket Investments. These obligations could include, for example, commitments to fund joint venture equity at future dates, indemnities or guarantees, and representations or warranties upon sale or disposition. Unresolved claims, including threatened litigation against the Clients or their affiliates, or tax assessments or claims for unpaid taxes are also potential sources of contingent liabilities. Contingent obligations may result in reserves and holdbacks upon a Client's redemption and upon the winding-up of the Client, which may subsist indefinitely; in addition, AFA and/or one of its affiliates may require the Client to return distributed capital and earnings if, on final winding-up of the Client, the Client's property is insufficient to satisfy the Client's liabilities. To the extent that expenses or losses arise in connection with any such contingent obligation, including contingent obligations that relate to prior periods, they generally will be borne by the Client and may adversely affect the Client.

### *Competition; Availability of Investments*

AFA is likely to face competition for attractive investment opportunities from hedge funds, private equity funds and other investment funds, as well as other market participants such as commercial banks, investment banks, traditional asset managers and other financial institutions. Some of these investment funds and other market participants may have investment strategies similar to those employed by AFA or otherwise be in competition with Clients for available investment opportunities. As a result, the number of investment opportunities available to each Client, and the expected returns available on such investments, may be limited. Clients may be at a competitive disadvantage to other investors in a particular sector or investment, as other investors may have greater capital, lower targeted returns or greater sector- or strategy-specific expertise than the Client. The foregoing factors mean there can be no assurance that AFA will be able to identify or successfully pursue attractive investment opportunities on behalf of Clients.

### *Each Fund is Not a Registered Investment Company*

While each Fund may be considered similar to an investment company, they are not registered as such under the Investment Company Act, in reliance upon a registration exemption available to privately offered investment companies. Accordingly, the provisions of the Investment Company Act (which, among other things, require registered investment companies to have a majority of disinterested directors, require securities held in custody to be at all times individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company, and regulate the relationship between the investment adviser and the investment company) are not applicable to the Funds.

### *Legal, Tax and Regulatory Risks*

Future legal, tax and regulatory changes may adversely affect Clients. For example, tax treaties or tax laws in foreign jurisdictions may change, resulting in materially higher levels of taxation upon disposition and adversely affecting the return on investments. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and investment funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The regulatory environment for private funds and fund managers is evolving, and changes in the regulation of private funds, fund managers and their trading activities may adversely affect the ability of AFA to pursue their investment strategy and the value of investments. In recent years, there has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. Such scrutiny may increase Clients' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight also may impose administrative burdens on the Investment Manager, the General Partner and their personnel.

With the passage of the Dodd-Frank Act, there has been, and will continue to be, extensive rulemaking and regulatory changes that may affect private fund managers, the investment funds they manage and the financial industry as a whole.

AFA is not registered with the Commodity Futures Trading Commission (the "CFTC") as a commodity pool operator ("CPO") with respect to the Funds, in reliance on the registration exemption provided by CFTC Rule 4.13(a)(3). Compliance with this registration exemption could result in restrictions upon AFA's trading of the instruments to which exposure is limited under the exemption, such as commodity futures, security futures, options thereon and certain swaps; and, in place of such instruments, AFA may trade non-restricted instruments that may result in higher transaction costs and/or a less optimal hedge. AFA reserves the right to register with the CFTC as a CPO if it cannot comply with the Rule 4.13(a)(3) exemption or any other available exemption from registration. To the extent AFA is required to register with the CFTC as a CPO, it would be subject to increased regulatory requirements that would impose additional administrative burdens. Clients may be subject to new or additional regulatory constraints in the future. It is impossible to predict what changes in regulations may occur, but any regulations that restrict the ability of AFA to trade in certain securities or other instruments, employ leverage or otherwise limit the Funds' ability to pursue their investment strategies could have a material adverse impact on a Client's portfolio. As new or additional laws are enacted or regulations adopted, the Investment Manager will evaluate their potential impact on the Funds and may, in response to such laws or regulations, cause the Funds to modify or withdraw from certain existing investments, investment strategies or business activities.

The foregoing is a summary of material risks involved in AFA's investment strategies. Further discussion of risk factors to the AFA Funds is presented in each Fund's Offering Documents, which are available to current and eligible prospective investors in such Fund.

## **Item 9 – Disciplinary Information**

---

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of AFA or the integrity of AFA's management. Neither AFA nor any of our management personnel are subject to or have in the past been subject to any criminal or civil action in any domestic or foreign court, and neither AFA nor any of our management personnel have been subject to any administrative proceedings before the SEC or any other state, federal or foreign financial regulatory authority.

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

---

Neither AFA nor any of our employees have any relationships or arrangements that pose material conflicts of interest to the business model of AFA.

AFA and its principals are not registered as a broker-dealer or a registered representative of a broker-dealer or affiliated with any broker-dealer or bank.

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

---

AFA has adopted a Compliance Manual and Code of Ethics in compliance with Rule 204A-1 under the Advisers Act that establish various procedures with respect to investment transactions in accounts in which employees of AFA and/or their affiliates have a beneficial interest or accounts over which an employee has investment discretion.

The foundation of the Compliance Manual and Code of Ethics is based upon the following principals:

- Employees must at all times place the interest of Clients first;
- Employees must make sure that all personal securities transactions are conducted consistent with the Compliance Manual and Code of Ethics;
- Employees should not take inappropriate advantage of their position at AFA; and
- Employees are prohibited from trading on the basis of material nonpublic information

The Compliance Manual and Code of Ethics includes general requirements that Supervised Persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, confidentiality of client information and gifts and entertainment. It requires Supervised Persons to comply with the personal trading restrictions and to report their personal securities transactions and holdings to AFA's Chief Compliance Officer (the "CCO") and requires the CCO to review those reports. It also requires Supervised Persons to report any violations of the Code of Ethics promptly to the CCO. Each Supervised Person receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received those materials. Annually,

each Supervised Person must certify that he or she complied with the Code of Ethics during the preceding year.

Investors may request a copy of AFA's Code of Ethics by contacting the Chief Compliance Officer, Scott Pritchard, telephone: 212.319.1778, email: [spritchard@altafundamental.com](mailto:spritchard@altafundamental.com).

## **Item 12 – Brokerage Practices**

---

### **Best Execution**

AFA has complete discretion in selecting the broker that it uses for client transactions and the commission rates that Clients pay such brokers. In selecting a broker for any transaction or series of transactions, AFA may consider a number of factors, including, for example:

- ☐ Net price, clearance, settlement and reputation;
- ☐ Reputation financial strength and stability;
- ☐ Efficiency of execution and error resolution;
- ☐ Block trading and block positioning capabilities;
- ☐ Willingness to execute difficult transactions;
- ☐ Access to underwritten offerings and secondary markets;
- ☐ Access to company management;
- ☐ Market intelligence regarding trading activity;
- ☐ Order of call;
- ☐ Computerized trading systems; and
- ☐ Availability of stocks to borrow for short trades.

### **Research and Other Soft Dollar Benefits**

AFA may use “soft” or commission dollars when AFA makes a good faith determination that the commissions are reasonable in relation to the value of brokerage and research services provided, viewed in terms of either a particular transaction or our 28 overall responsibilities to all Clients. AFA uses “soft” dollars in accordance with Section 28(e) of the Securities Exchange Act of 1934, as amended (“Section 28(e)"). Section 28(e) provides a “safe harbor” to advisers that use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to AFA in performing investment decision making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and Federal law.

Research products or services provided to AFA may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific

securities, and other products and services providing lawful and appropriate assistance to us in the performance of our investment decision-making responsibilities. This research may include both proprietary research or research created or developed by a third party.

AFA is not obligated to seek the lowest transaction charge, except to the extent that it contributes to the overall goal of obtaining the best execution for Clients. A higher transaction charge on exchange and over-the-counter trades may be determined reasonable in light of the value of the brokerage execution and research products and services provided to us for the benefit of our Clients.

Consistent with the requirements of best execution, AFA may from time to time enter into formal or informal arrangements with certain brokers (“Soft Dollar Brokers”) whereby the provision of research or brokerage execution services is explicitly dependent on the level of commissions and underwriting concessions generated by the Clients. In selecting Soft Dollar Brokers to initiate soft dollar transactions, AFA will consider the capabilities of the Soft Dollar Broker to provide best execution.

### **Trade Errors**

On occasion we may experience errors with respect to trades made on behalf of Client accounts. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, when the correct security is purchased or sold but for the wrong account, when the wrong amount is purchased or sold, or when a misallocation among the Funds occurs. We endeavor to detect trade errors prior to settlement and correct them in an expeditious manner.

AFA will reimburse losses suffered by a Client as a result of a trade error caused by the Firm as a result of gross negligence, willful misconduct or fraud. In addition, we will not correct a trade error made for one Client by causing the other Client to buy or sell the securities.

### **Aggregation of Orders**

AFA may manage assets for a number of clients, which may have the same or similar investment objectives. It is AFA’s policy to allocate investment opportunities that it identifies as being suitable for more than one client fairly and equitably over time consistent with its fiduciary duties to Clients and taking into account all relevant facts and circumstances. Orders for the same investment entered on behalf of more than one Client may be aggregated, subject to the aggregation being in the best interests of all participating Clients, in order to facilitate execution and minimize transaction costs. For an aggregated order, AFA prepares a pre-trade allocation statement in advance of the trade that indicates how the Adviser intends to allocate the trade. If the executed order is not allocated pro rata in accordance with the pre-trade statement, AFA prepares a statement documenting the reason for the changed allocation.

## **Item 13 – Review of Accounts**

---

AFA’s portfolio managers and investment team are responsible for overseeing Client portfolios, including, but not limited to, monitoring investments on an ongoing basis. Portfolio managers and



the investment team also hold ad hoc meetings as necessary to review all accounts. Those reviews take into account such matters as asset allocation, investment ideas, current events, investment strategies and Client positions. AFA's Chief Financial Officer ("CFO") and operations team reviews and reconciles Client portfolios on a daily basis to assure conformity with investment guidelines, restrictions and objectives. The CFO will advise the Portfolio Managers of any apparent anomalies. AFA's CFO and operations team reviews and reconciles all transactions, positions and cash balances on a daily basis. The Fund's third-party Administrator, in conjunction with our operations team, provides monthly reviews and reconciliations cash, positions and activity to the prime brokers in order to properly validate and account for all transactions. Monthly profit and loss are reconciled by the Administrator and is reconciled by the CFO and operations team. The monthly net asset value calculations are prepared by the Administrator and reviewed by the CFO and operations team.

Investors in the AFA Funds receive a monthly statement of valuation, periodic unaudited performance information, no less than quarterly, and annual audited financial statements prepared in accordance with U.S. generally accepted accounting principles by an accounting firm that is registered with and subject to regular inspection by the Public Accounting Oversight Board pursuant to rule 206(4)-2(b)(4)(ii).

---

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

AFA may engage solicitors to whom it pays cash, or a portion of the advisory fees paid by Clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the Client and AFA complies with the other requirements of Rule 206(4)-3 under the Advisers Act, to the extent required by applicable law. Currently, AFA does not have any arrangements with any third parties to introduce prospective investors to AFA.

---

#### **Item 15 – Custody**

AFA does not have physical custody of any Client assets. Because AFA or one of its affiliates acts as general partner of certain Funds, AFA is deemed to have custody of the assets of those Funds under SEC rules. AFA maintains the assets of all Clients with qualified custodians, within the meaning of Rule 206(4)-2 under the Advisers Act. The AFA Funds satisfy reporting requirements under that rule by furnishing audited financial statements annually to all investors in the Funds within time periods required under the rule.

---

#### **Item 16 – Investment Discretion**

AFA ordinarily has full discretionary authority, subject to any investment restriction set forth in the Offering Documents for a Client or in the investment management agreement with a Separately Managed Account, to manage and make determinations without obtaining the consent of the Client before the transactions are effected, including but not limited to: (i) buying and selling investment securities conforming to the investment guidelines and restrictions of each Client, (ii) the amount

of securities to be bought or sold, (iii) the broker or dealer to be used, and (iv) commission rates paid.

#### **Item 17 – Voting Client Securities**

---

We have general authority to vote proxies for our Clients. We adhere to our proxy voting policies and procedures that are designed to ensure that such proxies are voted in the best interest of each Client on a case-by-case basis. AFA makes all voting decisions on behalf of Client accounts based solely on our determination of the best interests of that Client account subject to any specific proxy voting guidelines specifically requested by and agreed upon with Separately Managed Account Clients. The investors may not directly vote proxies.

Upon request, we will provide investors with a copy of our proxy voting policies and procedures which are outlined in our Compliance Manual and Code of Ethics.

#### **Item 18 – Financial Information**

---

AFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of any bankruptcy proceedings.

#### **Item 19 – Requirements for State-Registered Advisers**

---

Not applicable.