

**Item 1.       Cover Page**

**Brochure of  
Baleen Capital Management LLC**

**500 Yale Ave N, #400  
Seattle, WA 98109  
Telephone: (646) 389-2833  
Email: [fli@baleencap.com](mailto:fli@baleencap.com)  
<http://baleencap.com>**

**March 9, 2022**

This brochure provides information about the qualifications and business practices of Baleen Capital Management LLC (“**Baleen**”). If you have any questions about the contents of this brochure, please contact Fang Li at (646) 389-2833 or [fli@baleencap.com](mailto:fli@baleencap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## **Item 2. Material Changes**

Baleen is required to advise clients and prospective clients of any material changes to our Firm Brochure (“Brochure”) from our last annual update. We are a new registrant, and this is our first annual update since our initial filing dated August 3, 2021.

Clients will receive an annual summary of any material changes to this and subsequent Brochures no later than April 30th, which is 120 days after our fiscal year-end. At that time, we will offer a copy of our most current Disclosure Brochure. We will also promptly provide ongoing disclosure information about material changes, as necessary.

Please note that we do not have to provide this information to a client or prospective client who has not received a previous version of our Brochure.

### **We have made the following material changes to this Brochure:**

We have relocated our office from Portland, Oregon to Seattle, Washington. Our updated address is reflected on the cover page of this Brochure.

We have added language related to the outside business activities of Fang Li, our sole and managing member. Please refer to Item 10 for full details.

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

Baleen is a Delaware limited liability company that has been in business since May 1, 2012. Baleen's manager, controlling owner and portfolio manager is Fang Li. As of February 28, 2022, Baleen had total discretionary assets under management of \$148,850,000. Baleen only manages assets on a discretionary basis.

Baleen serves as the general partner and investment adviser to private investment funds (the "**Baleen Funds**"). Baleen has also formed one or more "special purpose" funds, and may form similar funds in the future ("**SPVs**"), to invest in opportunities that it believes are attractive but are (a) appropriate for the Baleen Funds, but too large to allocate solely to those funds, (b) outside of the Baleen Funds' investment strategies, or (c) in Baleen's judgment not appropriate at that time for the Baleen Funds. The Baleen Funds and the SPVs are referred to collectively as the "**Funds**" and individually as a "**Fund**".

Baleen invests principally, but not solely, in equity and equity-related securities of public and private companies in global markets on behalf of its clients, but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of Fund's partnership or operating agreement or client account agreement.

The investors in the Funds have no opportunity to select or evaluate any Fund investments or strategies. Baleen selects all Fund investments and strategies.

Additionally, Baleen will, on occasion, provide consulting services to private companies. This will generally take the form of advice related to company growth, oversight of financials, marketing, and other advice related to the development of the company. Such services may be provided to underlying portfolio companies as well as potential investment targets. In the case of services provided to companies held in any of the Fund portfolios, any compensation paid to Baleen will be reflected in a direct offset to management fees for the relevant Fund equal to the compensation paid.

Baleen does not participate in wrap fee programs.

#### **Item 5. Fees and Compensation**

Baleen's compensation is negotiable and varies, but typically, it charges an annual fee of up to 2.0% of assets under management, which amount is payable in quarterly installments at the beginning or end (depending on the provisions of each client's partnership, operating or account agreement) of each calendar quarter based on the net market value of each client's or investor's account on the date the fee accrues or becomes payable. Baleen also typically is allocated from each investor in a Baleen Fund a performance allocation equal to 20% of net profits (including both realized and unrealized gains and losses) otherwise allocable to such investor. Performance allocations with respect to each investor are assessed in arrears on an annual basis, and are only applied to the portion of profits that exceed the cumulative losses previously allocated to that investor; provided that performance allocations generally will not be made with respect to an illiquid investment until that investment is liquidated.

Baleen typically charges investors in the SPVs a management fee of up to 2.0% of each investor's invested capital. Baleen typically receives a carried interest distribution with respect to each investor in an SPV equal to 20% of the amounts distributed to that investor in excess of that investor's aggregate capital contributions to the SPV.

Baleen may waive or reduce all or part of the management fees or performance allocations with respect to any client or Fund investor. Baleen complies with Rule 205-3 under the Investment Advisers Act of 1940, to the extent required by applicable law. Performance allocations may create an incentive for Baleen to make more risky and speculative investments than it would otherwise make.

Baleen deducts management fees and performance allocations directly from client accounts.

Accounts that invest in other private investment funds or managed accounts also pay, indirectly, investment advisory fees to the managers of those funds or accounts.

Baleen believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 and that invests in a Fund of which Baleen is general partner or managing member, to use the "alternative reporting option" to report Baleen's compensation as "eligible indirect compensation" on the Schedule C of the plan's Form 5500 Annual Return/Report of Employee Benefit Plan.

Relationships with each Fund are terminable on expiration of the Fund's term, on dissolution of the Fund or on Baleen's withdrawal as general partner, managing member or investment adviser of the Fund. Each investor in a Baleen Fund generally may withdraw from that Baleen Fund, on specified prior written notice, on the last day of any calendar quarter that occurs on or after the day preceding the first anniversary of such limited partner's admission to the Baleen Fund, although Baleen may waive this lock-up period or permit more frequent withdrawals in its discretion. Baleen may allocate illiquid investments in a Baleen Fund to side pockets. Investors generally may not withdraw from side pockets until the assets in those side pockets have been liquidated. Investors generally may not withdraw from the SPVs,

In all cases, expenses, the pro rata portion of the management fee and the performance allocation through the date of termination are charged to the account. All prepaid but unearned advisory fees are refunded on termination of a client's account. An investor who withdraws from a Fund on a date other than the last day of a quarter or other appropriate period, however, the investor receives a refund of a pro rata portion of the management fee previously paid for such quarter.

Each account is responsible for its own costs and expenses, including trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges), ongoing legal, accounting and bookkeeping fees and expenses, and the fees and expenses charged by any fund administrator for its accounting, bookkeeping and other services. Baleen bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. All or part of these costs and expenses may be paid, however, by

securities brokerage firms and futures commission merchants that execute clients' securities trades, as discussed in Item 12 below.

Fees for consulting services offered by Baleen are negotiable and will be billed either in advance or arrears pursuant to a written agreement.

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

Baleen currently manages only accounts that pay performance-based compensation as described in Item 5. It does not manage accounts that do not pay performance-based compensation.

#### **Item 7. Types of Clients**

Baleen provides investment advice to investment funds. Investors in the Baleen Funds generally are required to invest a minimum of \$1,000,000 and investors in SPVs generally are required to invest a minimum of \$25,000, but Baleen may waive these minimums.

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

##### Investment Strategy

Baleen's investment objective is to achieve a superior rate of long-term capital compounding while minimizing the probability and magnitude of permanent capital loss. The investment objectives of the SPVs differ because each SPV is expected to invest in securities of a single issuer. There can be no assurance that any client will achieve its investment objective.

Baleen intends to achieve this investment goal through investing in companies that in Baleen's assessment have an attractive combination of product quality, team, growth potential, improvement over time, and valuation, with investments selected by Baleen based on fundamental research and company analysis. Investments are expected to be comprised primarily of long and short positions in securities of a selection of companies from around the world, both publicly-traded and private, but may also include other illiquid securities, debt securities, as well as derivative securities.

Capital will primarily be allocated based on how Baleen perceives a company's valuation relative to its product quality, team, growth potential, improvement over time, and expected future operating performance. A portion of a client's capital may be allocated to investments with low or negative market correlation, including short sales and opportunistic investments. Although Baleen will consider industry and geography in making investments, these factors will not drive portfolio allocation. Baleen does not expect to target allocations by net or gross exposure. Clients may have significant concentration in a limited number or types of investments.

Baleen defines risk not by short-term movements in public market value, but rather the probability and magnitude of permanent capital loss.

Baleen may hold cash and equivalents in client accounts if satisfactory investment opportunities are not found, and utilize shorts and portfolio protection.

The investment strategies summarized above represent Baleen's current intentions, are general in nature and are not exhaustive. There are no limits on the types of securities in which Baleen may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Baleen may use any trading or investment techniques, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Baleen may pursue any objectives or use any techniques that it considers appropriate and in clients' interest.

### Risk Factors

Investing in securities involves risk of loss that clients and Fund investors should be prepared to bear. Below are some of the risks that investors should consider before investing in any Fund. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a client or Fund investor may encounter. Potential investors in a Fund should review such Fund's offering circular or private offering memorandum carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. The risks described below also generally apply to individually managed accounts. A potential client should discuss with Baleen's representatives any questions the potential client may have before opening an account.

- The success of Baleen's investment strategy depends on the skill and acumen of Baleen's portfolio manager, Fang Li, in selecting investments. If he should cease to participate in Baleen's activities, its ability to select attractive investments and manage the Funds could be impaired.
- The Funds may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- The Funds may be concentrated in securities of technology sector companies, many of which may have micro- to small-sized market capitalizations. Those securities involve substantially higher risks than do investments in securities of non-technology sector and larger companies.
- Baleen has limited operating history on which prospective clients and investors may evaluate its performance.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect an account's investments.
- An account may hold stocks that disappoint earnings expectations and decline, and may short stocks that beat earnings expectations and rise.
- Baleen may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Baleen also may receive

material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.

- Baleen may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies or private companies (such as early stage startups). These companies are riskier because they often lack the management experience, financial resources, product diversification, markets, distribution channels and competitive strengths of larger companies. They also may experience substantial variations in operating results from period to period. The stock of smaller companies may be hard to borrow, making it difficult for Baleen to take short positions as large as would be desirable.
- An officer, employee or other representative of Baleen may serve as a director of a portfolio company. In such person's capacity as an officer or director, such person will become subject to fiduciary or other duties that adversely affect a Fund. Additionally, during periods when directors of such a company and their affiliates are prohibited from purchasing or selling securities of that company, a Fund would be prohibited from buying or selling such securities when such activity may be beneficial to such Fund.
- A Fund may participate in transactions with a company of which Baleen's personnel or advisers are directors, or exercise the Fund's voting or consent rights with respect to any such company. If a dispute arises from any of those activities or with respect to any other matter arising from any such person's service on a board, a Fund or Baleen may incur significant defense costs and liabilities. Beyond direct costs, such disputes would adversely affect the Funds in a variety of ways, including by distracting Baleen personnel and harming relationships between the Funds and such companies.
- Baleen may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. Baleen is not obligated to hedge a client's portfolio positions, and it frequently may not do so.
- An account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Baleen sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to prevent short sales of the issuer's securities. Baleen could be subject to such actions, even if they are baseless, and the Funds could incur substantial costs defending them.
- Baleen may use leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, which increases volatility and risk of



loss. These instruments can be difficult to value. An incorrect valuation could result in losses. Trading on margin also can result in substantial interest charges.

- Baleen may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which Baleen does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Baleen may cause a client to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- Baleen may cause clients to invest in securities of non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- Baleen may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if Baleen holds a large position in an issuer's securities, it could depress the market for those securities. Further, securities laws may restrict the extent to which a client may trade the securities of a company of which it is a large shareholder, which could limit the client's ability to realize profits on transactions in the securities of such a portfolio company.
- Some of an account's positions may be or become illiquid, in which case Baleen may not be able to sell such positions.
- An account may invest in, and may establish substantial positions in, restricted securities that are subject to long holding periods or that are not traded in public markets. In particular, the SPVs are expected to invest primarily in securities that are not traded in public markets. These securities are difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded.
- An account's investments may not be diversified. In particular, each SPV is expected to invest in the securities of a single issuer. Therefore, a loss in any one position, industry or sector in which a Fund has invested may cause significant losses.

- Baleen determines the value of securities and commodities held in client accounts, whether or not a public market exists for such assets, and relies on information about valuation from third parties. If Baleen's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- The client and not Baleen is responsible for any trade errors that Baleen makes, even when the error hurts the client.
- Baleen and its affiliates and agents generally are not responsible to any client or Fund investor for losses incurred in an account unless the conduct resulting in such loss constituted gross negligence, fraud or willful misconduct to the client or investor.
- There is not and will not be an active market for Fund interests. It may be impossible to transfer any such interests, even in an emergency.
- Investors in the Baleen Funds are subject to restrictions on their ability to withdraw capital from those Funds. Investors in an SPV generally may not withdraw any capital from that SPV.
- A Baleen Fund may not be able to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force Baleen to liquidate investments too rapidly, and may so reduce the size of a Baleen Fund that it cannot generate returns or reduce losses.
- A Baleen Fund may limit or suspend withdrawals of an investor's assets from that fund.
- A Baleen Fund may establish a reserve for contingencies if Baleen considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that Baleen and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Baleen to find attractive investments as the amount of assets that it must invest increases.
- No Fund has been represented by separate counsel. The attorneys who represent Baleen or its manager do not represent Funds or their investors. Investors must hire their own counsel for legal advice and representation.
- A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
- Baleen, an administrator or any government agency may freeze assets that any of them believes a Fund holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of Baleen, the Funds or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.

- A Fund may take action with respect to an investor's investment or withdrawal/redemption proceeds as it considers appropriate under relevant legislation and regulations, including but not limited to the Foreign Account Tax Compliance Act, and any associated legislation, regulations or guidance, or similar legislation, regulations or guidance enacted in any jurisdiction that seeks to implement similar tax reporting and/or withholding tax regimes. Failure by an investor to assist a Fund in meeting its obligations pursuant to such legislation and regulations may result in pecuniary loss to that investor.
- Under new legislation, an audit adjustment to a Fund's U.S. tax return for any tax year beginning after 2017 could result in a tax liability (including interest and penalties) imposed on the Fund for the year during which the adjustment is determined.
- The Baleen Funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a Baleen Fund without a cash distribution to pay the related taxes.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that Baleen must devote to regulatory compliance, to the detriment of investment activities.
- Baleen is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity pool operator or commodity trading adviser. The equity interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. Baleen believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, Baleen and the Funds could be subject to expensive legal action and potential termination. Investors in the Funds do not have certain regulatory protection that they would have if these registrations were in place.
- Baleen's activities could cause adverse tax consequences to clients and Fund investors, including liability for interest and penalties.
- Baleen's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- Baleen depends heavily on information systems and technology. A disruption in the infrastructure that supports Baleen's business, including a disruption involving order management systems, electronic communications or other services that Baleen or third parties with which it does business use, would affect Baleen's ability to continue to manage client accounts without interruption.

- Baleen, the Funds and their service providers may experience cybersecurity attacks that disrupt operations, losses, interfere with net asset value calculations, impede trading, or lead to violations of privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other costs.
- Baleen and its affiliates may spend time on activities that compete with a Fund without accountability to investors, including investing for other clients (including the SPVs) and their own accounts. If Baleen receives better compensation and other benefits from managing certain accounts, it has an incentive to allocate more time to those activities. These factors could influence Baleen not to make investments on behalf of a client even if such investments would benefit the client.
- Baleen may provide certain clients or Fund investors more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other clients or Fund investors. For example, the Baleen Funds and the SPVs invest in similar securities, but the Baleen Funds have more favorable liquidity than the SPVs. Because of these different terms, one Fund may from time to time take actions that could adversely affect other Funds and their investors.

**Item 9. Disciplinary Information**

This Item is not applicable, because Baleen has no reportable disciplinary information.

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

This item is not applicable, because Baleen has no reportable other financial industry activities or affiliations.

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

Baleen has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, that establishes standards of conduct for Baleen's supervised persons. The Code of Ethics includes general requirements that Baleen's 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 and confidentiality of client and investor information. It requires supervised persons to comply with the personal trading restrictions described below and periodically to report their personal securities transactions and holdings to Baleen's Compliance Officer, and requires the Compliance Officer or his delegate to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to the Compliance Officer. Each supervised person of Baleen 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 and prospective investors may obtain a copy of Baleen's Code of Ethics by contacting Fang Li at fli@baleencap.com.

Under Baleen's Code of Ethics, Baleen and its managers, members, officers and employees may personally invest in securities of the same classes as Baleen purchases for clients and may own securities of issuers whose securities that Baleen subsequently purchases for clients. This practice creates a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a client account to profit personally by the market effect of such transactions and recommendations. To address this conflict, except as described in Item 12 regarding aggregating securities transactions, if Baleen purchases or sells a security for clients and any of Baleen and its managers, members, officers and employees on the same day, either the clients and Baleen and its managers, members, officers and employees pay or receive the same price, or the clients receive the more favorable price. Baleen and its managers, members, officers and employees may also buy or sell specific securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which Baleen does not believe appropriate to buy or sell for clients.

There are conflicts of interest over Baleen's time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Baleen selects investments for each client based solely on investment considerations for that client. Different clients may have differing investment strategies and expected levels of trading. Baleen may buy or sell a security for one client but not for another, or may buy (or sell) a security for one client while simultaneously selling (or buying) the same security for another client. Baleen attempts to resolve all such conflicts in a manner that is generally fair to all of its clients. Baleen may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client so long as it is Baleen's policy, to the extent practicable, to allocate investment opportunities to its clients fairly and equitably over time. Baleen is not obligated to acquire for any account any security that Baleen or its managers, members, officers or employees may acquire for its or their own accounts or for any other client, if in Baleen's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

The SPVs invest in opportunities that Baleen believes are attractive but are (a) appropriate for the Baleen Funds, but too large to allocate solely to those Funds, (b) outside of the Baleen Funds' investment strategies, or (c) in Baleen's judgment not appropriate at that time for the Baleen Funds. Those investment opportunities are called the **"SPV Opportunities."**

Baleen may determine that an SPV Opportunity is inappropriate to allocate in whole or in part to the Baleen Funds because, among other things, the SPV Opportunity is outside of the Baleen Funds' strategy or, if it falls within the Baleen Funds' strategy, taking the full investment in the Baleen Funds would overweight that position in the Baleen Funds' portfolios or require risk controls that are impracticable to set up within the Baleen Funds, or if the SPV Opportunity involves illiquid securities, Baleen believes that the lack of liquidity is inappropriate for the Baleen Funds (or some combination of such factors).

When Baleen identifies an SPV Opportunity, it may offer that opportunity to the existing SPVs or form new SPVs for other existing investors, including its principals, as well as new investors. For example, Baleen may offer an opportunity only to investors that Baleen believes could commit capital within a short time frame or whose participation Baleen believes could help facilitate the

transaction. For certain SPV Opportunities, confidentiality may be important, in which case Baleen would only approach a small number of investors.

## **Item 12. Brokerage Practices**

### Best Execution.

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

- net price;
- outsourced trading expertise and services of brokers that provide trading desks to their customers;
- online pricing;
- special execution capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- willingness to commit capital;
- knowledge of buyers and sellers;
- block trading and block positioning capabilities;
- efficiency of execution and error resolution;
- order of call;
- offering to Baleen on-line access to computerized data regarding clients' accounts;
- computer trading systems;
- clearance, settlement and reputation;
- financial strength and stability;
- custody, recordkeeping and similar services;
- quotation services; and
- the availability of stocks to borrow for short trades.

Baleen may also purchase from a broker or futures commission merchant or allow a broker or futures commission merchant to pay for the following (each a "soft dollar" relationship):

- research reports, services and conferences, including third-party research fees;
- economic and market information; portfolio strategy advice; industry and company comments;
- technical data;
- consultations;
- periodical subscription fees;
- performance measurement data;
- on-line pricing; and
- news wire and data processing charges.

### Prime Brokers and Custodians.

Baleen has retained certain brokerage firms to serve as prime brokers and custodians for the Funds. The services that they provide as prime broker and custodian may include providing custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the prime brokerage and custody agreements entered into with the Fund. Baleen receives other services from them. These services may include: technology services (such as internet access, IT support, Bloomberg connections, wireless networking, email archiving and disaster recovery systems), capital introduction services, portfolio reporting and access to Electronic Communications Networks. The arrangement may be deemed to be a soft dollar arrangement. Baleen expects to use a substantial portion of these services for research and trading on behalf of its clients, but some may be used for administrative purposes, which would not be within the safe harbor of section 28(e). Although many prime brokers and custodians provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if Baleen did not receive these services from them, Baleen would be required to pay for all or some portion of them. Baleen expects to direct some securities transactions to them and their affiliates, but is not required to direct a particular number of trades to them or to continue to use them as its client's prime broker and custodian, but it has an incentive to do so based on their prior and continued services.

A Fund's obligations to those custodians and their affiliates will be secured by way of a first priority perfected security interest over all of the Fund's assets held in custody by them and their affiliates may transfer to themselves all rights, title and interest in and to those assets as collateral and may deal with, lend, dispose of, pledge or otherwise use all such collateral for their own purposes. If any such transfer occurs, the Fund will rank as such custodian's (or affiliate's) unsecured creditor. If such custodian or affiliate becomes insolvent, the Fund may not be able to recover such equivalent securities in full. In addition, the Fund's cash held by a custodian may not be segregated from such custodian's own cash and, if not so segregated, may be used by such custodian or affiliate in the course of its business and the Fund will therefore rank as an unsecured creditor in relation thereto.

If a Fund's investments are registered in the name of a custodian or affiliate due to the nature of the law or market practice of a particular jurisdiction, such investments will not be segregated from the custodian's or affiliate's own investments and if such custodian or affiliate becomes insolvent, the client may not be able to recover such equivalent investments in full.

#### Trading Brokers.

Baleen may select a broker to act as a "trading broker" for a client. In such cases, Baleen or the trading broker may select the executing broker, and the trading broker would then place or manage the order. The trading broker is compensated (through commissions or otherwise) for this trading service in addition to the commissions paid to the executing brokers. As with all soft dollar arrangements, using a trading broker in this manner causes the client to pay brokerage commissions, mark-ups and other transactions fees that are higher than might otherwise be paid if brokers were selected solely based on lowest execution cost. In addition, using a trading broker (rather than an employee of Baleen) to provide those services may allow Baleen to reduce its own personnel expenses.

### Soft Dollars.

Section 28(e) of the Securities Exchange Act of 1934 provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If Baleen uses commission dollars to pay for products or services that provide administrative or other nonresearch assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Baleen may pay to a broker or futures commission merchant commissions and mark-ups that exceed those that another broker or futures commission merchant might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker or futures commission merchant provides. Baleen determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Baleen’s overall fiduciary duty to its clients. An account may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Baleen’s brokerage relationships benefit Baleen’s operations as a whole and all accounts that it manages, including those that do not generate the soft dollars that pay for such research and other benefits and accounts of clients that direct Baleen to use a broker or futures commission merchant that does not provide Baleen with soft dollar services. Baleen does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate.

Baleen’s relationships with brokers and futures commission merchants that provide soft dollar services influence Baleen’s judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not, and in allocating the costs of mixed-use products between their research and non-research uses. Baleen has an incentive to select or recommend a broker or futures commission merchant based on Baleen’s interest in receiving soft dollar services rather than clients’ interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Baleen uses soft dollars to pay expenses it would otherwise be required to pay itself.

Baleen addresses these conflicts of interest by annually evaluating the trade execution services that Baleen receives from the brokers and futures commission merchants that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and futures commission merchants. Baleen considers, among other things, alternative market makers and market centers, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers or futures commission merchants, increasing or decreasing targets for each broker or futures commission merchant and the appropriate level of commission rates.

### Trade Aggregation.

Baleen may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Baleen manages or with accounts of its affiliates.



In such event, Baleen may charge or credit a client the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the client than it would be if Baleen were not executing similar transactions concurrently for other accounts. Baleen may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both clients.

#### Referrals.

Baleen may direct a certain amount of brokerage to a broker or futures commission merchant in return for the broker's or futures commission merchant's referral of prospective clients or Fund investors. Directing brokerage in exchange for client or investor referrals creates a conflict of interest in that Baleen has an incentive to refer clients' brokerage business to brokers and futures commission merchants to which it might not otherwise direct transactions. During its last fiscal year, Baleen did not direct client transactions to a particular broker or futures commission merchant in return for investor referrals.

#### **Item 13. Review of Accounts**

Baleen's Managing Member reviews all accounts on a regular basis. Those reviews take into account such matters as asset allocation, cash management, the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels. Each account receives a monthly statement and investor letters discussing performance and investment outlook that are usually delivered at least once per year.

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

Baleen may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients or Fund investors referred to it by those solicitors. In such cases, this practice is disclosed in writing to the applicable clients and investors and Baleen complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

#### **Item 15. Custody**

As an advisor to private funds, Baleen is subject to the SEC's custody rule with respect our Funds. However, we are not required to comply with certain requirements of the custody rule with respect to our Funds because we comply with the provisions of the so-called "audit exception" for pooled investment vehicles. Among other things, the exception requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that we distribute each Fund's audited financial statements to all investors within 120 days after the end of its fiscal year.

Investors in our Funds receive periodic reports from us as described in Item 13 above. We urge investors in our Funds to carefully review those reports and compare the audited financial statement of our Funds to the reports provided by Baleen.

## **Item 16. Investment Discretion**

Baleen has discretionary authority to manage the Funds' assets pursuant to a grant of authority in each fund's limited partnership or operating agreement or investment management agreement.

## **Item 17. Voting Client Securities**

Baleen decides whether to vote proxies on behalf of each Fund and other client account over which Baleen has proxy voting authority after considering whether the proposal will have a material effect on Baleen's investment strategy. This analysis typically leads Baleen to not vote proxies. In determining whether a proposal serves an account's best interests, Baleen considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Baleen abstains from voting proxies when Baleen believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Baleen and a client, Baleen will vote all proxies in accordance with the policy described above. If Baleen determines that this policy does not adequately address the conflict of interest, Baleen will notify the client of the conflict and request that the client consent to Baleen's intended response to the proxy solicitation. If the client consents to Baleen's intended response or fails to respond to the notice within a reasonable time specified in the notice, Baleen will vote the proxy as described in the notice. If the client objects in writing to Baleen's intended response, Baleen will vote the proxy as the client directs.

A client can obtain a copy of Baleen's proxy voting policy and a record of votes cast by Baleen on behalf of that client by contacting Baleen.

## **Item 18. Financial Information**

Baleen does not require or solicit prepayment of fees six months or more in advance. We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients. We have never been the subject of any bankruptcy petition.

## **Privacy Policy**

Baleen and the Funds:

- collect non-public personal information about clients and Fund investors from the following sources:
  - information received from clients or investors on applications or other forms, and

- information about clients' or investors' transactions with Baleen, its affiliates, Funds or others;
- do not disclose any non-public personal information about clients or investors or former clients or investors to anyone, except as permitted by law;
- restrict access to non-public personal information about clients and investors to their employees who need to know that information to provide services to clients, investors or the Funds; and
- maintain physical, electronic and procedural safeguards that comply with federal standards to guard clients' and investors' personal information.

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