

Item 1 – Cover Page

Form ADV – Part 2A

Palo Duro Capital Partners, LP
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Chicago, IL 60606
Brochure Date: December 9, 2022

This Brochure provides information about the qualifications and business practices of Palo Duro Capital Partners, LP (“Palo Duro”). Additional information about Palo Duro, including a copy of its Form ADV Part 1, is available on the United States Securities and Exchange Commission’s (“SEC”) website at www.adviserinfo.sec.gov. If you have any questions about the contents of this Brochure or the additional information about Palo Duro available on the SEC’s website, please contact us at (708) 912-3452.

The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Please note registration as an investment adviser with the SEC does not imply any level of skill or training or ability with respect to the provision of investment advisory services.

Item 2 – Material Changes

Palo Duro is a newly organized investment manager that intends to commence offering and providing discretionary advisory services on or about February 1, 2023. As this Brochure is our initial filing, there are no material changes of note.

In the future, this section will summarize the material changes, if any, made to this Brochure.

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Item 4 – Advisory Business

Palo Duro Capital Partners, LP (“Palo Duro,” the “Investment Manager,” “we,” “us,” or “our”) is a Delaware limited partnership formed in September 2022 owned and controlled by Matthew Dougherty (the “Principal”). Palo Duro GP LLC, a Delaware limited liability company formed in September 2022, is the general partner of Palo Duro and is also owned and controlled by the Principal. The Principal was previously employed as a portfolio manager by another registered investment advisor and, in that capacity, provided investment management advice to certain private fund vehicles (the “Private Funds”) and separately managed accounts (the “Managed Accounts” and, collectively with the Private Funds, the “Vehicles”). Effective February 1, 2023, Palo Duro will be appointed the investment manager of the Vehicles.

Any use of the present tense in this Brochure is intended to apply only after Palo Duro begins providing investment advisory services.

Palo Duro offers the Vehicles discretionary investment advisory services. The Vehicles are managed in accordance with their own investment objectives as described in their respective offering documents and/or governing documents and agreements. Palo Duro does not tailor the investment decisions of the Private Funds to individual investors, and investors generally will not be able to impose restrictions on a Private Fund’s investments. However, Managed Account investors may be able to impose certain restrictions on the Managed Account’s investment activities on a case-by-case basis.

All discussions regarding any of the Vehicles in this Brochure, including but not limited to their investments, strategies used, the fees and other costs associated with an investment in the Private Funds or Managed Accounts, and/or conflicts of interest faced by Palo Duro in connection with management of the Vehicles, are qualified in their entirety by reference to each Vehicle’s offering documents and/or governing documents and agreements.

As of the date of this Brochure, Palo Duro does not have any assets under management and is registering with the SEC in reliance on Rule 203A-2(c) because it has a reasonable expectation to be eligible for SEC registration within 120 days from the date its registration becomes effective.

Item 5 – Fees and Compensation

The fees and expenses applicable to each Vehicle are set forth in detail in such Vehicle’s offering documents, governing documents and agreements and investor consents (as applicable). A description of such fees and expenses is provided below. A fee schedule is omitted from this Item 5 because this Brochure is only being delivered to “qualified purchasers” as defined in the Investment Company Act of 1940, as amended.

Management Fee

Each investor in the Private Funds will pay to Palo Duro an asset-based management fee as set forth in the Confidential Private Placement Memorandum (the “PPM”) for each Private Fund. Please see the applicable PPM for a more complete description of each Private Fund’s management fees.

Any asset-based compensation applicable to a Managed Account investor is negotiated with that investor directly. Any such investor should refer to the applicable governing documents of their respective separately managed account for further calculation details.

Performance-Based Compensation

In addition to the Management Fee described above, each Private Fund’s general partner or its designee will be generally entitled to receive performance-based compensation annually equal to a percentage of any new net appreciation attributable to each investor’s investment in such Private Fund. Please see the applicable PPM for a more complete description of each Private Fund’s performance-based compensation.

Any performance-based compensation applicable to a Managed Account investor is negotiated with that investor directly. Any such investor should refer to the applicable governing documents and agreements of their respective Managed Account for further calculation details.

Investors should refer to each Vehicle’s governing documents and agreements for more detailed information regarding how Palo Duro is compensated for its advisory services. The information contained herein is a summary only and is qualified in its entirety by such documents.

Operating Expenses

The Private Funds generally bear all costs and expenses associated with their organization, the offering of investment interests and their ongoing operations, except as otherwise described in their applicable governing agreements. Please see the applicable PPM for a more complete description of each Private Fund’s operating expenses.

Any Operating Expenses attributable to a Managed Account is negotiated with the Managed Account investor directly. Any such investor should refer to the applicable governing documents and agreements of their respective Managed Account for further details.

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

As described in “Item 5 — Fees and Compensation” above, Palo Duro generally receives incentive compensation from the Vehicles based on a percentage of the capital gains on, profits, or capital appreciation in the value of a Vehicle’s assets. Palo Duro’s eligibility to receive incentive compensation from certain Vehicles may create an incentive for it to trade and/or invest the Vehicles’ portfolios in a riskier or more speculative manner than Palo Duro otherwise would. Additionally, Palo Duro could have an incentive to favor Vehicles that generate incentive compensation (or greater incentive compensation) over other Vehicles when allocating trades that Palo Duro expects to be profitable. Palo Duro has adopted and implemented written compliance policies and procedures that are reasonably designed to provide fair and equitable allocation of investment opportunities over time and in a manner consistent with the investment objectives of each Vehicle.

Palo Duro or an affiliate intends to waive any/all incentive compensation with respect to any of Palo Duro’s related persons.

Item 7 – Types of Clients

As described in “Item 4 — Advisory Business” above, Palo Duro provides investment advisory services to the Vehicles on a discretionary basis.

As it relates to the Private Funds, investment advice is provided directly to those Private Funds and not individually to their investors. As it relates to Managed Accounts, investment advice is currently provided to foundations and pension plans.

Palo Duro currently provides, or may provide in the future, portfolio management services to high-net-worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, private investment funds, trust programs, and other U.S. and international institutions. We generally do not have absolute minimum requirements regarding the amount of assets needed to open or maintain an account.

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

Methods of Analysis / Investment Strategies

In general, the investment objective of the Vehicles is to generate long-term growth and capital appreciation. Palo Duro seeks to achieve such investment objectives primarily by investing in publicly traded companies in the energy sector.

Palo Duro’s strategy is value-based investing across the energy capital structure with an emphasis on purchasing equity securities it believes to be undervalued. Palo Duro uses a disciplined, fundamental research driven process that seeks to take advantage of market inefficiencies and mispricings. The strategy is primarily focused on investing in companies that have assets and operations in the United States. However, a portion of a Vehicle’s assets may be invested in companies with assets located outside of the United States.

Investment Decision Authority

Only the Principal is authorized to make investment decisions on behalf of the Vehicles.

Risk of Loss

Risk is inherent in all investing. The following summary description of certain principal risks of investing in Palo Duro's strategy is not exhaustive but highlights certain of the more significant risks involved in our investment strategies. There can be no assurance that any Vehicle will achieve its investment objective.

General Investment Risk

All investments in securities and other financial instruments involve substantial risk of volatility (potentially resulting in rapid declines in market prices and significant losses) arising from any number of factors that are beyond the control of the Investment Manager, such as: changing market sentiment; changes in industrial conditions, competition and technology; changes in inflation, exchange or interest rates; changing domestic or international economic or political conditions or events; changes in tax laws and governmental regulation; and changes in trade, fiscal, monetary or exchange control programs or policies of governments or their agencies (including their central banks). Changes such as these, as well as innumerable other factors, are often unpredictable and unforeseeable, rendering it difficult or impossible to predict or foresee future market movements. Unexpected volatility or illiquidity in the markets in which a Vehicle holds positions could impair its ability to achieve its objectives and cause it to incur losses.

Disease outbreaks that affect local economies or the global economy may materially and adversely impact our investment funds and portfolios and/or our business. For example, uncertainties regarding the novel Coronavirus (COVID-19) outbreak have resulted in serious economic disruptions across the globe. These types of outbreaks can be expected to cause severe decreases in core business activities such as manufacturing, purchasing, tourism, business conferences and workplace participation, among others. These disruptions lead to instability in the marketplace, including stock market losses and overall volatility, as has occurred in connection with COVID-19. In the face of such instability, governments may take extreme and unpredictable measures to combat the spread of disease and mitigate the resulting market disruptions and losses. In the event of a pandemic or an outbreak, there can be no assurance that the Investment Manager, the Vehicles or their service providers will be able to maintain normal business operations for an extended period of time or will not lose the services of key personnel on a temporary or long-term basis due to illness or other reasons. The full impacts of a pandemic or disease outbreaks are unknown, resulting in a high degree of uncertainty for potentially extended periods of time.

An investment with Palo Duro is subject to the risk of loss, including possible loss of the entire amount invested. No guarantee or representation is made that a Vehicle will be successful, and a Vehicle's investment results may vary substantially over time.

Strategy Risk

Sector Focus

The Vehicles will focus on the energy sector. Concentrating a Vehicle's investments in one sector or industry will generally result in more volatility than if the Vehicle invested more broadly across a wider range of industries. Additionally, this concentration increases the impact that a decline in the energy industry would have on the Vehicles.

Energy Risk

A Vehicle's investments will focus on the energy sector, with a primary concentration on companies involved in the production, transportation, and processing of hydrocarbons. The price of hydrocarbons is subject to market demands which may cause the price to fall or rise without notice. There also can be no assurance that the prices obtainable for such oil or natural gas will not be reduced through governmental regulation. World oil, gas, and petrochemical supply levels can also be affected by factors that reduce available supplies, such as adherence by countries to OPEC production quotas and other agreements among sovereigns, and the occurrence of wars, hostile actions, natural disasters, disruptions in competitors' operations, logistics constraints or unexpected unavailability of distribution channels that may disrupt supplies. Technological change can also alter the relative costs for competitors to find, produce, and refine oil and gas and to manufacture petrochemicals.

The demand for energy and petrochemicals is generally linked closely with broad-based economic activities and levels of prosperity. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on our results. Other factors that affect general economic conditions in the world or in a major region, such as changes in population growth rates, periods of civil unrest, government austerity programs, or currency exchange rate fluctuations, can also impact the demand for natural gas and oil.

Any negative developments in the energy sector could have a significant adverse effect on a Vehicle's performance.

Long Positions

The success of the long positions established for a Vehicle by the Investment Manager will depend in large part on the Investment Manager's ability to accurately assess the fundamental value of those positions. An accurate assessment of fundamental value depends on a complex analysis of a number of financial and legal factors. No assurance can be given that the Investment Manager will be successful in assessing the nature and magnitude of all material factors having a bearing on the value of a Vehicle's long positions, or that the Investment Manager will accurately assess the impact of all factors of which it is aware.

Trading in Non-U.S. Companies and Markets

A Vehicle may invest in non-U.S. companies and/or trade in non-U.S. markets. Trading in the securities of a non-U.S. company may involve certain considerations not usually associated with trading in securities of U.S. companies, such as risks of expropriation and nationalization of the

company's assets; confiscatory taxation of the company's income or the imposition of confiscatory withholding or other taxes on dividends, interest, capital gains or other income in respect of the company's securities; difficulties encountered by the company in enforcing its contracts; restrictions on repatriation of the company's funds or other assets; general social, political and economic uncertainty and instability; adverse diplomatic developments; the small size of some markets in foreign countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and governmental policies that may restrict or damage economic growth and investment opportunities. In addition, disclosure, accounting, and reporting standards that prevail in foreign countries may not be equivalent to United States standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States.

Transactions executed in financial markets outside the United States generally are not subject to regulation or supervision by U.S. regulatory authorities, and, in many cases, financial markets outside the U.S. are subject to less regulation than U.S. financial markets. For example, some foreign exchanges, in contrast to domestic exchanges, are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a contract and not of an exchange or clearing corporation. In such a case, an investor is subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. Transactions in financial markets outside the United States may also involve greater transaction and custody costs and greater delays in the settlement of transactions.

Institutional Risk

Suspensions of Trading

Securities and futures exchanges typically can suspend or limit trading in any instrument traded on the exchange. A suspension or limitation of trading could render it impossible for a Vehicle to liquidate a position or positions in a timely manner. A delay in exiting a position or positions could expose a Vehicle to losses with respect to such position(s), which could increase as the delay continues.

Failure of Exchanges and Clearinghouses

A Vehicle is subject to the risk of the failure of any of the exchanges on which its positions trade or of the clearinghouses for such exchanges.

Counterparty Risk

Some of the markets in which a Vehicle could invest and trade are over the counter or "interdealer" markets. The participants in these markets typically are not subject to the type of strict credit evaluation and regulatory oversight applicable to members of "exchange based" markets, and transactions in these markets typically are not settled through exchanges or clearinghouses that guarantee the trades of their participants. Rather, the responsibility for performing a particular transaction rest with the counterparties to the transaction. This results in the risk that a counterparty may not settle a transaction with a Vehicle in accordance with its terms, either because it is unwilling or unable to do so (for example, because of a credit or liquidity problem of the

counterparty), thereby exposing a Vehicle to loss. In response to such risk, many counterparties now require the posting of collateral. However, this collateral may be difficult to liquidate in a market crisis. In addition, in the case of a default by a counterparty, a Vehicle could become subject to adverse market movements while it attempts to execute a substitute transaction.

“Counterparty risk” is accentuated in the case of contracts having longer maturities, where events may intervene to prevent settlement, or where an investor has concentrated its transactions with a single or small number of counterparties. A Vehicle is not restricted from dealing with any particular counterparties or from concentrating any or all of its transactions with one counterparty.

Failure of Custodians

Financial institutions such as broker-dealers and banks will have custody of a Vehicle’s assets, including its margin deposits. These assets may not be registered in the name of a Vehicle. Financial difficulty, fraud, or misrepresentation at one of these institutions could impair the operational capabilities or capital position of a Vehicle and result in material losses.

Institutional Risk

Dependence on the Investment Manager and its Principal

The Principal will make all investment and trading decisions for a Vehicle. No Private Fund investor, in its capacity as such, may take part in the management or conduct of the business or affairs of the Private Fund or transact any business in the name of or otherwise for or on behalf of such Private Fund. As a result, the success of a Vehicle will depend to a great extent on the investment skills of the Principal and certain other Investment Manager personnel. A Vehicle could be adversely affected if, because of illness, resignation or other factors, the services of the Principal and certain other Investment Manager personnel become unavailable for any significant period of time.

Operational Risk

Limited Operating History

The Investment Manager is newly-organized and has no operating history. Irrespective of whether the Investment Manager’s investment strategies are successful, the Investment Manager is subject to all of the personnel, financial, operational and other risks associated with “start-up” enterprises.

The Principal has successfully implemented substantially the same strategies as the Investment Manager will implement for the Vehicles for a number of years at another investment management firm. However, the Principal’s past performance — and particularly the Principal’s performance at a management firm other than the Investment Manager — is not necessarily representative or indicative of how the Investment Manager or the Vehicles will perform in the future. Similarly, the past performance of the Vehicles is not necessarily indicative of their future results.

Substantial Fees and Expenses

A Vehicle is subject to substantial fees, transaction costs and other costs and other expenses, regardless of whether it realizes any profits. Among other things, investors will bear the Management Fees. As a result, a Vehicle will have to earn substantial profits to avoid depletion of its assets due to such costs and expenses.

Incentive Compensation

Palo Duro's incentive compensation depends on, and rewards Palo Duro for, continuing increases in a Vehicle's profitability, but does not directly penalize Palo Duro if a Vehicle incurs losses. This may create an incentive for Palo Duro to invest and trade a Vehicle's assets in a manner that is riskier or more speculative than would otherwise be the case. See Item 6 above.

Cybersecurity Risk

Each Vehicle, Palo Duro and its affiliates are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. A Vehicle may incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse reaction, the dissemination of confidential and proprietary information and reputational damage. While Palo Duro has established business continuity plans and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified.

Item 9 – Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that are material to a client's or a potential client's evaluation of Palo Duro or the integrity of its management. Palo Duro has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Palo Duro or an affiliate thereof will serve as the general partner of certain Private Funds (as applicable, the "GP"), while Palo Duro serves as the investment manager to all Vehicles. Each of the GP and Investment Manager are affiliated by common ownership.

The GP is deemed by the SEC to be registered as an investment adviser and the GP and any persons acting on behalf of the GP are subject to the Advisers Act and Palo Duro's compliance program.

Palo Duro and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a

broker-dealer. Palo Duro and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

Code of Ethics and Personal Trading

Palo Duro strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty, and trust. In seeking to meet these standards, Palo Duro has adopted a Code of Ethics. The Code of Ethics requires all employees to act with competence, dignity, integrity, and in an ethical manner when interfacing with the public, current or potential investors, third-party service providers, and fellow employees. Employees must use reasonable care and exercise independent judgment when conducting investment analysis, making investment recommendations, making investment transactions, promoting Palo Duro’s services, and engaging in other professional activities. Palo Duro expects all employees to adhere to the highest standards with respect to any potential conflicts of interest with either the Vehicles or investors.

The Code of Ethics places restrictions on personal trades by employees, including that employees disclose their personal securities holdings and transactions to Palo Duro on a periodic basis. Palo Duro monitors employees’ investment patterns in an effort to detect potentially abusive behavior. Further, to mitigate potential conflicts of interest, Palo Duro may restrict what securities employees can transact in for their personal accounts.

The Code of Ethics includes restrictions designed to supervise the giving or receiving of gifts and entertainment, political and charitable donations, and any employee’s outside business activities. Policies and procedures for reporting, investigating, and treating violations are included in the Code of Ethics. The Code of Ethics also includes insider trading policies and procedures that are designed to prevent the misuse of material non-public information. Palo Duro employees are required to certify their compliance with the Code of Ethics on a periodic basis.

We will make a copy of our Code of Ethics available to investors or prospective investors upon request.

Participation or Interest in Client Transactions

Palo Duro, its employees, or a related entity (collectively “Related Persons”) will commit their own capital to Vehicles managed by Palo Duro. Thus, although that Vehicle may, at times, buy or sell securities in which Related Persons have a material financial interest, the capital that Related Persons have in the Private Funds aligns the interests of the Private Funds and Related Persons, and helps to eliminate potential conflicts that may exist.

Item 12 Brokerage Practices

In selecting a broker-dealer through which to purchase or sell securities, Palo Duro will look for the most favorable combination of transaction cost, transaction ability, research, and other

services. In connection, price and commissions, execution ability, clearance procedures, and the nature and quality of research and other brokerage services provided by the broker-dealer are considered in using a specific broker.

Selecting Brokers & Use of Soft Dollars

Palo Duro also has relationships with brokers who provide to us research and other related services other than execution in connection with client securities transactions (“soft dollar arrangements”). (Section 28(e) of the Securities Exchange Act of 1934 provides a “safe harbor” that permits investment advisers to enter into soft dollar arrangements if the investment adviser determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided.) These soft dollar arrangements generally constitute third party research and research-related products and services. Palo Duro may also acquire services which have a mixed use, in addition to research. In the case of mixed-use items, Palo Duro allocates a percentage ratio of soft and hard dollars to the product / service acquired. This allocation is based on a good faith determination of the portion of the product / service that is considered to be used in the investment decision-making process versus the portion that is used by Palo Duro for non-investment decision-making purposes. The portion that is considered to be used for investment decision-making may be paid for using soft dollars, while the non-investment decision-making portion is paid for with hard dollars. In such cases, Palo Duro may have an incentive to allocate a higher soft dollar portion of the allocation based on its interest in receiving such products or services; however, Palo Duro has established policies and procedures to periodically review its allocation process and resulting allocations.

When Palo Duro utilizes client brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to pay for the research, products or services. As a result, Palo Duro may have an incentive to select or recommend a broker-dealer based on its interest in receiving these products or services, rather than on its clients’ interest in receiving most favorable execution. Palo Duro will only choose such broker-dealers when the execution complies with the principles of best execution. Additionally, Palo Duro utilizes soft dollar benefits to service all its accounts and does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

In addition to traditional soft dollar arrangements, Palo Duro may participate in commission sharing arrangements (“CSA”). A CSA is a type of soft dollar arrangement that allows Palo Duro to establish a commission account with an executing broker-dealer. Transactions are affected with the broker-dealer at an agreed upon commission rate. The broker-dealer allows Palo Duro to accumulate credits from a portion of the commission rate, and later Palo Duro requests the broker-dealer to use credits set aside in Palo Duro’s commission account to pay an independent research provider for products and services that fall under the protection of Section 28(e).

Palo Duro may also periodically obtain opinions from industry experts on industries in general as well as on specific companies or technologies, and these providers may be compensated by a broker-dealer on our behalf. In many cases, third-party research and other services are provided by means of orders executed through broker-dealers unrelated to the provider of research or other services.

Selecting Brokers & Referral Arrangements

Palo Duro may select as a broker-dealer for client transactions, broker-dealers that have affiliated entities who have referred or may refer clients to Palo Duro. In such cases, Palo Duro may have an incentive to select or recommend a broker-dealer based on its interest in receiving referrals, rather than on the clients' interest in receiving more favorable execution. Notwithstanding, Palo Duro will only choose such broker-dealers when the execution complies with the principles of best execution. Palo Duro has no formal relationships or agreements with any broker-dealer or associated person which requires Palo Duro to direct, or which compensates Palo Duro for directing, any specified level of brokerage/commissions to any broker-dealer.

Aggregating Trading for Multiple Client Accounts

Palo Duro's decisions to execute trades must include a decision on position size consistent with the investment objectives, guidelines, and restrictions of its clients. It may be appropriate for more than one client account to trade in the same securities at the same time in a "bunched order". In the case of bunched orders, allocations to multiple clients must be based on fair and equitable treatment of all clients, taking the following factors into consideration, among others:

- Investment objectives and requirements.
- Risk-management requirements.
- Adherence to any limits as defined in the applicable client's investment guidelines.
- Capital availability in each client account for trade of type under consideration.
- Liquidity/availability of securities.
- Current sector and/or security diversification in each client's account.

Brokerage Practices

Allocations may also reflect the judgment of Palo Duro's investment professionals as to the specific needs of an account. The investment professionals generally establish an objective as to the amount of stock in a bunched order to be allocated to each client account, such position generally being expressed as a percentage of the assets in the client's account. The liquidity of some stocks is limited, and the stock initially purchased at the target price may be insufficient to achieve the minimum position objective established by the portfolio manager. In addition, it may not be possible that enough additional stock may be purchased at the target price to achieve the portfolio manager's minimum position for each account. Therefore, shares of a purchased block may be allocated randomly or pro-rata among accounts.

Trading Errors

As disclosed in each Vehicle's respective governing documents, the cost of errors in a client account will be borne by the impacted account unless an error is the result of a breach of the standard of care set forth in those documents. The Private Funds keep any gains or losses resulting from trade errors. Investors should refer to the offering documents and governing agreements for further disclosures with respect to trade errors.

Item 13 Review of Accounts

Portfolio Reviews

Each Vehicle's portfolio is reviewed on a regular basis by the Principal and other investment professionals. These reviews are designed to monitor and analyze transactions, positions, exposure, and investment levels.

Reporting

Palo Duro will generally provide investors with, or access to, the following written reports: monthly capital account statements, annual audited financial statements, and annual tax reports (if the Vehicle is a taxable entity or individual). In certain circumstances, Palo Duro may offer intra-period estimated performance and other Vehicle information to investors, upon request.

Item 14 Client Referrals and Other Compensation

Economic Benefits Received

As discussed more fully under Item 12, Palo Duro will enter "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist Palo Duro in our investment decision-making process. The receipt of such services is deemed to be the receipt of an economic benefit by Palo Duro, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a Vehicle's interest in receiving most favorable execution. Please refer to Item 12 for detailed information regarding how Palo Duro addresses the conflicts of interest pertaining to soft dollar arrangements.

Palo Duro maintains written policies and procedures with respect to the giving and receipt of gifts and entertainment, and the giving of donations and contributions, which are reasonably designed to comply with applicable law, including pay-to-play restrictions. Those policies and procedures include prohibitions on the giving or receiving gifts, entertainment, donations, and contributions that Palo Duro determines are lavish or excessive under the circumstances.

Compensation for Client Referrals

Palo Duro does not pay any third parties to solicit clients for referral.

Item 15 Custody

As the general partner or investment manager of each of the Private Funds, Palo Duro will generally be deemed to have custody of client assets under the applicable Advisers Act rules (despite the fact that Palo Duro will never have actual physical custody of such assets). Palo Duro will generally comply with the Advisers Act custody rules by delivering audited financial statements for each Private Fund to its investors within 180 days after the end of each Partnership's

fiscal year. Should the Private Funds liquidate, the financial statements of each Private Fund will be audited at that time and distributed to investors.

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains clients' investment assets. Palo Duro urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 Investment Discretion

Palo Duro has full discretionary authority to manage the Vehicles, including authority to make decisions with respect to which investments are bought and sold. Discretionary authority is provided via each Vehicle's governing documents and agreements. Any limitations on authority are included in the applicable Vehicle's governing documents and agreements, and/or Palo Duro's internal compliance policies and procedures.

Item 17 Voting Client Securities

Palo Duro accepts authority to vote proxies for the Vehicles. In addition to solicitations in connection with equity securities of traditional operating companies, proxy voting is also deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt, and other rights and remedies with respect to securities. Palo Duro has adopted proxy voting policies and procedures that are reasonably designed for proxies to be voted in a way that maximizes the value of the impacted Vehicle's assets in accordance with its fiduciary duty. Proxies are assets of the Private Funds that, when voted, will be voted with diligence, care, and loyalty.

Palo Duro will vote each proxy that it receives and deems material in a manner that serves the best interest of the impacted Vehicle(s). However, Palo Duro may also abstain from voting client securities if it determines exercising voting authority would impose costs on the client. For example, an analysis of a particular proxy might reveal that the cost of voting the proxy may exceed the expected benefit (e.g., casting a vote on a foreign security may require Palo Duro to engage a translator or travel to a foreign country to vote in person). Also, Palo Duro may be unable to vote securities that have been lent by a custodian.

To aid itself in the voting of proxies, Palo Duro has engaged Institutional Shareholder Services, Inc. ("ISS") to provide proxy voting services for the Vehicles for whom Palo Duro exercises proxy voting authority. While Palo Duro intends to frequently rely on the recommendations of ISS for purposes of voting proxies, it may also opt to override the guidelines if it is decided to be in the best interest of its clients. Regardless of whether Palo Duro overrides ISS' recommendation(s), Palo Duro retains ultimate authority with regard to voting decision on behalf of client securities. Investors ordinarily may not direct proxy voting for solicitations.

Complete proxy voting policies and procedures for Vehicles, including complete guidelines, are available upon request. Additionally, investors may contact Palo Duro at (708) 912-3452 to obtain information on how securities were voted.

Class Action Litigations and Settlements

Palo Duro utilizes an independent third-party service provider, Securities Class Action Services, LLC, to assist with identifying potential class action recoveries. This third party is compensated based on a percentage of the proceeds recovered from all Palo Duro class action filings. It should be noted that the Vehicles bear the cost (i.e., receive a reduced amount of the class action proceeds) of the third-party class action recovery services. Palo Duro credits any class action settlement proceeds received to the applicable Vehicle(s).

Item 18 Financial Information

Palo Duro is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to the Vehicles and has not been the subject of a bankruptcy petition at any time.