

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

March 1, 2023

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**This brochure provides information about the qualifications and business practices of Vanshap Capital, LLC. If you have any questions about the contents of this brochure, please contact us at (571) 933-6950. 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.**

Currently, our Brochure may be requested by contacting David Shapiro at 571-933-6950 or [dshapiro@vanshapcapital.com](mailto:dshapiro@vanshapcapital.com).

Additional information about Vanshap Capital is also available via the Securities and Exchange Commission's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Vanshap Capital who are registered, or are required to be registered, as investment adviser representatives of Vanshap Capital. Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

**Item 2 – Material Changes**

The last update of Form ADV Part 2A (the “Brochure”) was dated March 1, 2022. We have changed fund administrators and custodian for our fund of funds client since the date of the last ADV. We have also terminated all existing investor referral agreements with third-party marketers. There have been no other material updates to this brochure since then.

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#### Item 4 - Advisory Business

- A. Vanshap Capital, founded in March 2012, is an investment services firm that provides investment management services to investors through its clients, Vanshap Capital Value Fund, LP, a pooled investment vehicle, or (“hedge fund client”) that invests in publicly traded securities, and Vanshap Capital Food Technology Fund I, LP, a pooled investment vehicle investing in a partnership that indirectly owns a single private equity security, or (“fund of funds client.”)

Vanshap Capital is managed by David Shapiro and Evan Vanderveer (each, a “**Principal**”), and each Principal owns 37.5% of Vanshap Capital. The Principals also manage our clients’ general partner, Vanshap Capital GP, LLC (the “**General Partner**”), and each Principal owns 30% of the General Partner.

- B. We attempt to always act in the best interest of our clients. Our firm strictly adheres to the investment strategy set forth in our clients’ Private Placement Memoranda. We do not modify securities recommendations to our clients according to the particular interests of our clients’ underlying investors, nor do we allow investors to place restrictions on the trading we conduct for our clients. We believe that this is the only fair and just way to manage a pooled investment vehicle, as it minimizes the potential for favoritism and factionalism on behalf of any underlying investors.

Vanshap Capital seeks to achieve long-term capital appreciation for its investors by primarily investing in equity securities in the small-cap global markets. Our primary method of identifying potential investments is through screening and our relationship network.

- C. We may tailor specific advisory services with respect to our clients at our discretion and based on the individual investment strategy of our clients. All discussions of the clients in this Brochure, including but not limited to its investments, the strategies used in managing the clients, and conflicts of interest faced by Vanshap Capital in connection with the management of the clients are qualified in their entirety by reference to the clients’ offering documents.
- D. We do not participate in any wrap fee programs.
- E. As of March 1, 2023, Vanshap Capital managed approximately \$62,000,000 in discretionary assets. Vanshap Capital does not currently manage assets on a non-discretionary basis.

## Item 5 – Fees and Compensation

- A. Vanshap Capital, or an affiliate of our firm, receives compensation from our clients based on (i) the percentage of assets we manage, and/or (ii) performance achieved for our client's account.

We charge our hedge fund client an annual asset-based fee equal to 1.5% of each of its investor's capital accounts. We also charge a performance-based profit allocation equal to 15% of each investor's annual net realized and unrealized profits, subject to both a (a) "loss carryforward" or "high water mark" limitation, and (b) a "hurdle rate of 5%." This means that we only receive a performance profit allocation when an investor's account value for the year exceeds 5%, and has recovered any losses from all prior years. The performance-based profit-sharing allocation is made to our affiliate, the General Partner. Our fees are generally not negotiable, but fees may be reduced in extraordinary circumstances. For the fund of funds client we only charge a performance-based profit allocation equal to 10% of each investor's net realized profits in excess of capital contributed with no performance hurdle.

- B. For our hedge fund client we deduct the asset-based fee described above from each investor's capital account at the beginning of each fiscal quarter. We deduct the 15% annual performance-based compensation mentioned above from each investor's capital account at the end of each year or whenever an investor is making a withdrawal, but only on the withdrawn amount. For the fund of funds client we only deduct performance-based compensation upon realization of profits typically as a result of a sale of the underlying investment or distribution in-kind of underlying securities associated with the investment.
- C. In connection with our advisory services, our clients, and consequently the investors in our clients, bears all of its own organizational and operational expenses, including: legal fees (including settlement costs), costs of any litigation or investigation involving our clients' activities, accounting costs (including tax preparation and audit expenses, administration costs, insurance, costs associated with reporting and providing information to existing and potential investors, any governmental fees imposed on our clients, and withholding and/or transfer taxes.

Our clients, and consequently investors in our clients, also bear all of its investment-related expenses, such as:

- proxy expenses;
- interest and commitment fees on loans and debit balances;
- borrowing charges on securities sold short;
- custodial fees;
- brokerage commissions;

- trade processing fees, including clearing and settlement charges;
- travel expenses related to research;
- research fees and materials (including online news and quotation services);
- costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific transactions;
- bank charges; and
- other ordinary miscellaneous research and trade-related expenses.

For more information on brokerage transactions and costs, please see Item 12: Brokerage Practices.

- D. The asset-based fee associated with our hedge fund client is payable quarterly in advance; however, investors in our client are only allowed to withdraw capital on the last business day of a calendar quarter after providing 45 days' notice. Accordingly, we do not need to provide fee refunds to investors before the end of a billing period because they will never pay a fee in excess of what they owe.
- E. Neither our firm nor any of our employees receives any transaction-based compensation for the sale of securities or other investment products, including charges or fees from the sale of mutual funds.

## Item 6 – Performance-Based Fees and Side-By-Side Management

The General Partner receives a performance-based profit allocation from the investors in our clients. As explained in Item 5 of this Brochure, for our hedge fund client the performance-based profit allocation our investors incur is equal to 15% of each investor's annual profits, and is subject to both a (a) "loss carryforward" or "high water mark" limitation, and (b) a "hurdle rate of 5%." For the fund of funds client the performance-based profit allocation our investors incur is equal to 10% of the investor's cumulative realized profits in excess of contributed capital.

Distributions of performance-based profit allocations to the General Partner are referred to as the "carried interest." These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

The performance-based profit allocation for our hedge fund client is calculated and charged to each investor in our client as of the last day of each calendar year, and is also calculated and charged with respect to any investor in our client that is permitted or required to withdraw from the client. In the case of a partial withdrawal, the performance-based profit allocation is calculated and charged only with respect to the portion of such investor's capital account that is actually withdrawn. For the fund of funds client the performance-based profit allocation is only charged to investors upon realization of any profits due to liquidation or distribution in-kind of the underlying investment.

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Additionally, we may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account.

For our hedge fund client we currently use the MSCI World ex-USA and MSCI Emerging Markets ex-China as comparative indices for our client. These indices are widely used by internationally-oriented investment funds as primary benchmarks. The MSCI World Indices are market-cap weighted and made up of equities from 23 developed countries around the globe, while the MSCI World ex-USA Index excludes companies domiciled in the United States. The MSCI Emerging Markets Index is market-cap weighted and made up of equities from 24 countries classified as emerging economies, while the MSCI Emerging Markets Index ex-China excludes companies domiciled in China. Since our client's investments will focus on many of the same developed and emerging markets primarily outside the United States and China, we believe the MSCI World ex-USA and MSCI Emerging Markets ex-China Indices are appropriate benchmarks. For the fund of funds client we do not use any benchmark as the underlying investment consists of only one private equity holding.

Our hedge fund client primarily invests in publicly traded equity securities and the fund of funds client invests in a private partnership which owns interests in one underlying private equity security.

For publicly traded securities, independent pricing services such as Bloomberg serve as the primary source for valuations for all client portfolio securities. The adviser typically values listed securities at the closing price of the day on their given exchanges, or in the absence of any trades, at the mean of the day's final bid/ask prices or end of day bid or ask price. For NASDAQ and OTC securities, the adviser may use the mean price between the end of day bid/ask or end of day bid or ask in the absence of a closing trading price.

OTC Debt securities are typically valued using a matrix pricing model that primarily takes into account available dealer quotations as well as comparative bond valuations. We may consider analytical data, the type of security, the size of holding, transactional information (including cost basis), trading in similar securities, pricing history, market liquidity, and other measures to determine a fair valuation.

Valuations of private partnership investments held by our fund of funds client are based on the capital statements provided by the General Partner of such private partnership. According to the relevant excerpt from the partnership's LPA valuation policy, "any security held that is not listed or quoted on any securities exchange or similar electronic system...will be valued at its probable realization value as determined by the General Partner in good faith having regard to its cost price, the price at which any recent transaction in the security may have been effected, the revenue or earnings of the company multiplied by a factor that is consistent with the ratio of revenue and/or earnings to the valuation of comparable companies, and such other factors as the General Partner deems relevant in considering a positive or negative adjustment to the valuation."

Valuations are validated on an annual basis by a third party certified public accountant and Vanshap Capital will maintain documentation of any security fairly valued.



## Item 7 – Types of Clients

Vanshap Capital, LLC provides investment advice to two clients, Vanshap Capital Value Fund, LP, and Vanshap Capital Food technology Fund I, LP, pooled investment vehicles. The underlying investors in these funds are typically:

- Individuals;
- Trusts and estates; and
- Corporations, partnerships or other business entities.

To invest in Vanshap Capital Value Fund, LP, we require a minimum investment of \$1,000,000, and to invest in Vanshap Capital Food Technology Fund I, LP we require a minimum investment of \$100,000, although we may waive these requirements at our discretion.

We require that U.S. investors in both funds to qualify as both accredited investors and qualified clients, although certain individuals who are not qualified clients may be permitted to invest in our clients. Accredited investors are (i) individuals with \$1,000,000 of net worth (excluding their primary residence)<sup>1</sup> or who have made \$200,000 in each of the two previous years (or \$300,000 joint income with one's spouse), or (ii) entities with assets totaling over \$5,000,000. Qualified clients are individuals or entities with over \$2,200,000 of net worth or who invest at least \$1,100,000 with us.

This Brochure is not an offer to invest in our clients.

A An individual need not deduct from his or her net worth the amount of mortgage debt secured by an excluded primary residence other than (i) the amount by which the mortgage liability exceeds the fair value of the residence, and (ii) any increase in the amount of the debt secured by the primary residence in the 60 days preceding the date hereof unless the increase was a result of the acquisition of the residence.

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

- C. We may employ any and all types of investment analysis and strategies; however, for our hedge fund client which invests in publicly traded securities we tend to focus our investing in small companies with sound businesses whose securities can be purchased at discounted market prices. Investing in securities involves significant risk of loss that our client, and any of the investors in our client, should be prepared to bear. Desired investments should have the following attributes:
- *Quality Business:* We generally think of a quality business in terms of durability, rational competition, and achieving an adequate return on invested capital (typically double digits on average) throughout the cycle. These businesses typically achieve at least average growth, yet are far more insulated to irrational competitive pressures and margin degradation. We spend considerable time conducting company and industry due diligence to properly assess Porter's five forces, favoring observable factors such as the supply of capital and underlying competitive dynamics versus relying on long-term demand projections, addressable market statistics, or trying to predict consumer preferences. Lastly, the business should have a sound balance sheet relative to industry peers. Operational gearing rather than financial gearing is preferred to enhance returns, as the margin of safety typically dwindles with debt.
  - *Exceptional Management:* Exceptional management is nearly impossible to identify via financial screening alone. While value creation may be quantitatively observable, other intervening variables may have heavily contributed to the result. We therefore spend a significant amount of time not only speaking with managers and directors, but also competitors and local analysts/investors to obtain a broader view of management's reputation, operational prowess, and capital allocation discipline. Many of the Fund's investments are managed and owned by a family or successful entrepreneur, as proper alignment of interests frequently produces superior long-term results.
  - *Discounted Valuation:* The price paid for a security is the primary determinant of returns. While this tenet is not always appreciated, we strive to maintain a strict valuation discipline, purchasing businesses at mid-single digit to low double-digit normalized earnings multiples. We are cognizant of the fact that the more one relies on future long-term growth estimates to justify current valuations, the more susceptible one is to an unacceptably low risk-adjusted return or even a permanent loss of capital if the thesis does not materialize.

Additionally, the following investment analysis is performed by Vanshap Capital with respect to its portfolio investments in public securities for our hedge fund client:

- *Idea Generation:* Our primary method of identifying potential investments is through screening. The first screen is run for stocks selling at low price-to-tangible book value multiples with low financial leverage ratios, while a second screen is run for stocks selling at low earnings multiples, with low financial leverage ratios, and high returns on equity and/or capital. The resultant equities generated from the screens are assessed systematically and a database containing notes on the candidates is kept. Other methodologies for idea generation include extensive reading of publicly available investment thesis and examining the holdings of fellow value-oriented money managers held in high regard. After an initial assessment, if an investment candidate appears to meet the requisite valuation and qualitative criteria (previously described in – Investment Approach) a more thorough analysis is conducted.
- *Quantitative Analysis:* Company consolidated financial statements, segment financial statements and statistics, and pertinent industry data from at least the last several years are typically manually entered into an Excel sheet for modeling purposes. Reported balance sheet assets and liabilities are “marked-to-market” and adjusted through comparative asset valuations and careful examination of financial statement footnotes. Cash earnings are normalized for unusual items and cyclicity through the examination of years of historical financial trends for both the company and industry along with projected trends. The quality of the historical earnings stream is assessed and compared against actual cash flows in conjunction with a review of accounting methodologies. Finally, a basic financial model is constructed and stressed under various economic scenarios.
- *Qualitative Analysis:* Qualitative factors are assessed through examination of SEC filings and other available public documents, including conference calls, presentations, and industry reports. These factors typically include cyclical/secular trends, competition, management track record, and unusual items found in the footnotes. Management’s competency and capital allocation abilities are judged by comparing previously stated goals to actual results. Questions are developed throughout the research process and management is then questioned to help fill in any informational gaps. Subsequent calls to competitors, analysts, industry experts, or other investors may also be placed to gain a more complete understanding of the company.
- *Portfolio Construction:* The invested portfolio will typically consist of between 6 and 10 publicly traded equities from around the globe. We believe this range of holdings allows for sufficient concentration in top investment ideas along with adequate portfolio diversification. Once the initial research process has been completed and a candidate has been selected for investment, anticipated correlations between portfolio positions are assessed and potential macroeconomic outcomes are taken into account before purchase. We generally seek to initiate positions in the securities of a single issuer between ten (10%) to twenty percent (20%) of our client’s portfolio (measured at cost), and limit exposure to any given industry or emerging market country to no more than twenty percent (20%) of our client’s portfolio, (measured at cost, )although the client’s offering documents do not provide for any specific position size or industry limitation and we may change these internal guidelines without prior notice to investors. As a matter of policy, our client will not invest in non-derivative equity securities, which are non-publicly-traded.
- *Portfolio Monitoring:* Calls and meetings with portfolio company management teams are held periodically or when needed in order to stay abreast of recent company developments. Positions trading at “fair value” based on net assets or earnings metrics are continuously reevaluated along with positions where our original investment thesis has changed or is no longer valid. A heightened degree of analytical skepticism is maintained throughout the investment process in order to limit investment mistakes and to subsequently detect fundamental changes to an investment thesis.

D. The investment objectives and methods summarized above represent our current intentions.

Depending on conditions and trends in the securities markets and the economy in general, we may pursue any objectives, employ any investment techniques, or purchase any type of security that we consider appropriate and in the best interests of our client. There can be no assurance that our investment strategy will achieve profitable results, and investing in securities involves risk of loss that investors in our client should be prepared to bear. Certain risks associated with an investment in our client include:

- *Investment Judgment and Market Risk:* The success of our investment program depends, in large part, on correctly evaluating future price movements of potential investments. We cannot guarantee that we will be able to accurately predict these price movements and that our investment program will be successful.
- *Investment and Trading Risk:* Investments in securities and other financial instruments involve a degree of risk that the entire investment may be lost. Also, changes in the general level of interest rates may negatively affect our client's results.
- *Financial Markets and Regulatory Change:* The instability pervading global financial markets has heightened the risks associated with the investment activities and operations of hedge funds, including those resulting from a reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity and an increased risk of bankruptcy of third parties with which we work. Market disruptions over the recent years and the increase in capital being allocated to hedge funds and other alternative investment vehicles have led to increased scrutiny and regulation over the hedge fund and asset management industry. In addition, the laws and regulations affecting business continue to evolve unpredictably. Laws and regulations applicable to our clients, especially those involving taxation, investment and trade, can change quickly and unpredictably in a manner adverse to our client's interests.

C. The following is a description of the various strategies that we utilize in advising our clients and some important risks associated with each strategy. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in our investment strategies.

- *Equity Securities:* We buy, on our client's behalf, undervalued equity securities, seeking to profit from both security selection and thematic sector or market timing decisions. The value of these investments will generally vary with their issuer's performance and movements in the equity markets. Also, a company's board of directors may not always act in the best interest of the company's shareholders. Consequently, our client may suffer losses if it invests in equity instruments of issuers whose performance and activity diverges from our expectations.
- *Fixed-Income Securities:* At times, our client may invest in bonds or other fixed-income securities. Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer's ability to pay off its obligations. Fixed-income securities are also subject to the risk that their issuer may be unable to make interest or principal payments on its obligations.

- *Options:* There are risks associated with the sale and purchase of options. Our client may invest in call and/or put options. Call options are the right to buy a security at a certain price within a defined time period. Put options are the right to sell a security at a certain price within a defined time period. A buyer of either type of option assumes the risk of losing its entire investment in the option. A buyer of a call option risks losing its investment if the particular security never reaches the designated price within the set time period. A buyer of a put option risks losing its investment if the particular security does not decline enough to reach the designated price within the set time period.
- *Short-Term Trading:* Short-term trading involves a certain degree of risk. Short-term trading denies a client the strategy of minimizing risk by holding a position over a longer time period. In addition, frequent trading results in high turnover and brokerage commission expenses which can adversely affect a client's performance if its trading is not sufficiently profitable.
- We may borrow against our client's assets when we believe that the proceeds from doing so will exceed the interest paid on the borrowing; however, no additional investments may be made when our client's leverage exceeds five percent (5%). Borrowing involves risk to our client because the interest on the borrowed amount may be greater than the income from or increase in the value of the securities purchased with the borrowed amount. Also, the value of the securities purchased with the borrowed amount can decline below the amount borrowed.

Any investment profits made with the proceeds from borrowings in excess of interest paid on the borrowings will cause the income and value of a client to be greater than would otherwise be the case. On the other hand, if the value of the additional securities purchased with the borrowed money does not increase enough to cover the interest paid on the borrowings, then the income and value of a client will be less than would otherwise be the case. Generally, borrowing-type techniques used to increase potential returns are all forms of leverage.

- *Illiquid Investments:* On our client's behalf, we sometimes make very illiquid investments. Illiquid investments are (1) investments that are not heavily traded and cannot easily be converted to cash or (2) investments that we believe our client must hold for several years to reach their potential value. If our client requires cash and we must sell illiquid investments at an inopportune time, we might not be able to sell illiquid investments at prices that reflect our assessment of their value or the amount paid for them.
- *Investing in Small Capitalization Companies:* Market capitalization is a measurement of a company's size equal to the share price times the number of shares outstanding (shares that have been authorized, issued and purchased by investors). We believe that some of the most attractive investment opportunities stem from investment in small capitalization companies and recently organized companies. Historically, these securities have been more volatile in price than those of larger capitalized, more established companies. Small capitalization and recently organized companies' securities pose greater investment risks because the companies may have limited product lines, distribution channels and financial and managerial resources. Further, there is typically less publicly available information concerning such companies than for larger, more established businesses. In addition, the small capitalization companies' securities may not be traded in the volumes typical for larger companies, and thus it may take longer to sell such securities or we may have to accept potentially less favorable purchase prices. Ultimately,

investing in companies with limited operating histories is more speculative and entails greater risk than does investing in companies with an established operating record.

- *Foreign Securities:* We occasionally buy and sell foreign securities for our client's account. Investing in foreign securities involves certain risk factors not typically associated with investing in U.S. securities, such as fluctuation between exchange rates and the costs of converting from one currency to another. In addition, there may not be much information available regarding foreign securities because foreign companies and governments may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of the U.S. There also might be a greater risk of political, social or economic instability and the possibility that foreign taxes may be imposed on our client's income. Finally, when investing in foreign bonds, there is always a risk that their issuer will default and be unable to pay the interest and/or principal payments due on the bonds, as the financial stability of foreign issuers may be more precarious than that of U.S. issuers.
- *Emerging Markets:* Investing in emerging market securities involves a greater degree of risk than investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, and a greater likelihood of severe inflation, unstable currency, war and/or expropriation of personal property than investments in securities of issuers based in developed countries. In addition, investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. Emerging markets generally are not as efficient as those in developed countries. Volume and liquidity levels in emerging markets are lower than in developed countries. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the governments or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.
- *Currency Risks.* The Fund's investments that are denominated in non-U.S. currencies are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments  
(risks continued next page)

Risks related to our fund of funds client include the above and the following:

- *Venture Capital.* While investments into venture capital and other non-public companies offer the opportunity for significant gains, those investments also involve a high degree of business and financial risk and can result in substantial losses. There generally will be little or no publicly available information regarding the status and prospects of a portfolio company. Many investment decisions by will be dependent upon the ability to obtain relevant information from non-public sources, and the General Partner may be required to make decisions without complete information or in reliance upon information provided by third parties that is impossible or impracticable to verify. The marketability and value of each investment will depend upon many factors beyond the General Partner's control. A company may have substantial variations in operating results from period to period, face intense competition, and experience failures or substantial declines in value at any stage. The public market for technology and other emerging growth companies is extremely volatile. Volatility may adversely affect the development of a company, the ability of the Fund or to dispose of investments and the value of investment securities on the date of sale or distribution by the Fund. In particular, the receptiveness of the public market to initial public offerings by a company may vary dramatically from period to period. An otherwise successful company may yield poor investment returns if it is unable to consummate an initial public offering at the proper time. Even if a company effects a successful public offering, the company's securities may be subject to contractual "lock-up," securities law or other restrictions which may, for a material period of time, the Fund or the Partners from disposing of those securities. Similarly, the receptiveness of potential acquirers to a portfolio company will vary over time and, even if a portfolio company investment is disposed of via a merger, consolidation or similar transaction, the company's securities or other interests in the surviving entity may not be marketable. There can be no guarantee that an investment in a Venture Capital company will result in a liquidity event via public offering, merger, acquisition or otherwise. The investment made by the Fund will be illiquid and difficult to value, and there will be little or no collateral to protect an investment once made. A Venture Capital company may lack one or more key attributes (*e.g.*, proven technology, marketable product, complete management team or strategic alliances) necessary for success. In most cases, investments will be long term in nature and may require many years from the date of initial investment before disposition.

We encourage our investors to consider all of the risk factors we have explained. Any investors in our clients risk the loss of their entire investment. **Please see our PPMs for greater detail on risks.**

## **Item 9 – Disciplinary Information**

- A. Neither Vanshap Capital, nor any of our directors, officers or principals has been involved in any criminal or civil actions in a domestic, foreign or military court.
- B. On September 8, 2011, David Shapiro, a principal of Vanshap Capital, was sanctioned for violating FINRA Rule 2010, NASD Rule 2711(G)(2), and 2711(H)(1)(A) by executing multiple trades (in 2009) in covered securities in accounts in which he or a member of his household had a financial interest during a period beginning thirty (30) calendar days before and ending five (5) calendar days after he published a report concerning the company that had issued the transacted security. Mr. Shapiro's member firm, acting through Mr. Shapiro, published research reports on subject companies that failed to disclose that Mr. Shapiro or a member of his household had a financial interest in the securities of the subject companies. Without admitting or denying the findings, Mr. Shapiro consented to the described sanction and to the entry of the findings, and was fined \$5,000. Neither Vanshap Capital, nor any of our other directors, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.
- C. Neither Vanshap Capital, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.



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

- A. Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.
- C. Vanshap Capital GP, LLC, an affiliate of Vanshap Capital, LLC, serves as the general partner to our hedge fund client and fund of funds client. David Shapiro and Evan Vanderveer manage and control Vanshap Capital GP, LLC and Vanshap Capital, LLC. Markel Corporation is a publicly traded corporation and serves as a member of Vanshap Capital, LLC. Neither Markel Corporation nor any of its officers or shareholders manage or control Vanshap Capital, LLC or Vanshap Capital GP, LLC.

We address this potential conflict of interest by fully disclosing the relationship among Vanshap Capital GP, LLC, Vanshap Capital, LLC, and Vanshap Capital Value Fund, LP in our offering documents. Although David Shapiro's and Evan Vanderveer's control of our clients' general partner and investment manager may give them heightened control and discretion over our clients, they each manage any potential conflicts of interest by strictly adhering to the investment strategy and business philosophy discussed in our clients' Private Placement Memoranda.

In addition, Vanshap Capital GP, LLC, as our clients' general partner, entered into the investment management arrangement with Vanshap Capital, LLC. While this may be an interested party agreement, the material terms of the investment management arrangement are fully disclosed to all investors in the client prior to their investment.

Investors in our Fund of Funds client have acknowledged that the General Partner or its affiliates has entered into other investment agreements with the managing partners of the target fund in competing Portfolio Companies. While the General Partner does not believe this will impact its or the target fund's ability to manage the investment in the Portfolio Company, each may be influenced by other investments in competing companies in any decisions made related to the Portfolio Company. Investors also acknowledge that the target fund and its managers and partners have other duties and obligations not disclosed herein and are subject to a number of conflicts of interests, including, without limitation, (1) one or more of their partners may, from time to time, hold a board seat or provide other services for compensation to the Portfolio Company or (2) one or more of their partners may have other duties and obligations to other investors, including other pooled investment vehicles they manage that may own other interests in the Portfolio Company.

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

**Item 11 – Code of Ethics**

- A. We have adopted a Code of Ethics in accordance with the Securities and Exchange Commission requirements. Our Code of Ethics works to ensure that our employees' securities transactions are consistent with our firm's fiduciary duty to our clients. In brief, it prohibits all firm employees from personally trading in a security while in possession of material, nonpublic information regarding that security or front-running transactions being conducted for the benefit of our clients. Our Code of Ethics is available to our clients or any investor or potential investor in our client upon request.
- B. Principals and employees are generally not permitted to make direct or indirect investments in securities that are held by the clients for their personal accounts but may be permitted to do so under certain circumstances. This type of personal investing may create potential conflicts of interest because (1) Principals or employees may have an incentive in certain situations not to recommend the sale of those securities to the clients in order to protect the value of their personal investment, and (2) Principals or employees may have an incentive to place their orders before those of the clients in order to obtain a better price. We address these potential conflicts of interest by requiring that all individuals who wish to engage in such transactions request and obtain pre-clearance from the Chief Compliance Officer before placing their order.
- C. Our firm does not trade securities for its own benefit; we only trade securities for our clients.

## Item 12 – Brokerage Practices

A. We have complete investment and brokerage discretion over our clients' accounts. We select broker-dealers for our clients' securities transactions and determine the reasonableness of their compensation based on a number of factors, including the following:

- the financial strength, integrity and stability of the broker-dealer;
- the ability to effect prompt and reliable executions at favorable prices (including the applicable broker-dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- the broker-dealer's risk in positioning a block of securities; and
- the competitiveness of commission rates in comparison with other broker-dealers satisfying our other selection criteria.

We may enter into "soft dollar" arrangements with one or more broker-dealers whereby they will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although we will use the research and services in making investment decisions for our clients, we may use such research or services for other accounts and our clients will generally pay more than the lowest available commissions for execution of these transactions. We may also enter into "soft dollar" arrangements to cover our expenses or costs and any expenses or costs of our client to the extent such arrangements are permitted by law.

Our firm does not recommend, request or require that our client or any investor in our clients, direct us to execute transactions through a specified broker-dealer. We do not permit our clients or any investor in our client to direct us to execute transactions through a specified broker-dealer.

B. Because we only advise one client that holds publicly traded securities, we execute all client transactions simultaneously.

Given that our clients are pooled investment vehicles and not individuals, there will not be an opportunity for client directed brokerage at the present time.

### **Item 13 – Review of Accounts**

- A. We maintain comprehensive review procedures for the ongoing monitoring of portfolio investments. In connection therewith, we typically conduct quarterly reviews of all portfolio company investments held by our client. All investment and operational staff participate in the ongoing monitoring of the client's portfolios, although responsibilities vary by individual. Specifically, portfolio managers of Vanshap Capital will be involved in the review of our clients' portfolios.
- B. We frequently monitor portfolio investments for events that have a material impact on our original investment thesis. Any change to an investment thesis necessitates a review by the managers of the merits of the investment. Changes in valuation and underlying company fundamentals will generally trigger a review by portfolio managers.
- C. ALPS Alternative Investment Services, LLC provides our hedge fund client investors with monthly online statements that contain information about each investor's account. We provide the investors in our client with quarterly reports that contain a brief review of our client's performance for the relevant quarter. The quarterly reports are written and also include a brief overview of our market outlook and comments on the composition of our client's portfolio.

Formidium Inc. provides our fund of fund client's investors with access to online financial statements at least semi-annually that contain information about the value of each investor's account. We provide the investors in our client with a periodic review of relevant information relating to the investment our fund of funds client holds.

We also furnish both our clients' investors with annual audited financial statements and tax information to assist investors in completing their tax returns.

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

- A. Our firm previously had active agreements with third-party marketers who were paid for investor referrals for the firm's client. We believe these agreements complied with Section 206(4)-(3) under the Investment Advisers Act of 1940, to the extent such rule applied. While these agreements have been terminated, ongoing payments to third-party marketers are still being made so long as the referred investor is still invested in the firm's clients. The third-party marketers are compensated based on a percentage of the management and/or incentive fees received by our firm and its affiliates. No additional fees are added to those that are already charged to investors as a result of these agreements. These agreements may be deemed to create an incentive for the third-party marketers or their employees to recommend our advisory services to qualified potential investors.

## **Item 15 – Custody**

While it is our firm’s practice not to accept or maintain physical possession of our client’s assets, we are deemed to have custody of its assets under Rule 206(4)-2 (the “Custody Rule”) because our related person Vanshap Capital GP, LLC is the general partner of our two pooled vehicle clients and by definition we therefore have “custody.”

In order to comply with the Custody Rule, we utilize the services of qualified custodians (as defined in the Custody Rule), Goldman, Sachs & Co. LLC and BOK Financial to hold all of our hedge fund client’s assets while Customers Bank holds all the cash assets of our fund of funds client. We also ensure that the qualified custodians maintain these funds in accounts that contain only our clients’ funds and securities, under our clients’ names. In accordance with the Custody Rule, we also (1) engage an independent auditor registered with and subject to inspection by the PCAOB to audit our clients at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in our clients within 120 days after the end of the fiscal year. Finally, we receive monthly account statements from the custodians on behalf of our clients, which we compare with our own records and records maintained by our clients’ administrators.

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

We accept discretionary authority to manage our clients' securities accounts. Essentially, this means that we have the authority to determine, without obtaining specific consent from our clients or their investors, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in our clients' Private Placement Memoranda. Evan Vanderveer and David Shapiro, our principal portfolio managers, review our clients' accounts regularly to ensure that we are observing our clients' investment strategies and objectives.

Before accepting their subscriptions for interests, we provide all potential investors in our clients with a Private Placement Memorandum that sets forth, in detail, our investment strategy and program. By completing our subscription documents to acquire an interest in our funds, investors give us complete authority to manage their investments in accordance with the Private Placement Memorandum they received.

## Item 17 – Voting Client Securities

- A. Our firm has the authority to vote proxies on behalf of our clients. It is our policy to vote proxies when it is in the best interest of our clients to do so and in accordance with the goal of maximizing the long-term value of our clients' investments.

If any conflict of interest arises in connection with voting our clients' securities, we observe the following guidelines:

- We normally vote to maintain or create a majority of independent directors on a board of directors as a whole as well as on its audit, compensation and nominating committees.
- We normally vote to limit an auditor's engagement solely to the provision of tax and audit work.
- We normally vote to limit the total compensation of management to a level that is appropriate with its performance.
- We normally vote against poison pills, different classes of stock and other methods designed to insulate management from the desires of their shareholders. (A poison pill is a strategy that corporations use to discourage hostile takeovers by making their stock appear less attractive to potential acquirers.)
- We normally vote in accordance with actions taken to maximize the company's long-term value without regard to "social responsibility" issues, except to the extent that those issues may affect the long-term value of the business.

- B. Neither our clients, nor investors in our clients, can direct us to vote client proxies in a certain manner.

Upon request, our clients' investors can obtain (i) a copy of our proxy voting policies and procedures, and (ii) information concerning proxy votes on our client's behalf. We maintain the following records relating to proxy voting in our office:

- Copies of our proxy voting policies and procedures and any amendments.
- Proxy statements received for client securities.
- Records of proxy votes cast on behalf of our clients.

We have engaged the proxy service provider ISS to help manage our client's proxy ballots for public securities only.



**Item 18 – Financial Information**

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.
- C. Vanshap Capital, LLC has never been the subject of a bankruptcy petition.