



SHARTSIS FRIESE LLP

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January 13, 2010

VIA E-MAIL

To Our Investment Adviser Clients and Other Friends:

This is our annual letter briefly reviewing a variety of issues that our investment adviser clients should consider over the next few days or weeks.

Federally Registered Investment Advisers.

1. Annual Updating Amendment to Form ADV. If you are an SEC-registered adviser, you must amend your Form ADV each year within ninety days after the end of your fiscal year. This annual amendment must update your responses to all items of Form ADV. You must amend Part 1A electronically on the IARD system. You are not required to file Part II with the SEC, but you must maintain an updated paper copy in your files. When you amend Part 1A, the IARD system will prompt you to indicate the type of amendment. You should select “annual updating amendment.” As of January 1, 2010, the IARD filing fees for SEC-registered advisers for annual updating amendments are (a) \$40 for advisers with assets under management (“AUM”) below \$25,000,000, (b) \$150 for advisers with AUM from \$25,000,000 to \$100,000,000 and (c) \$200 for advisers with AUM over \$100,000,000. You must fund your IARD account with the appropriate amount before you can submit the amendment.

2. Switching to State Registration. If your firm’s AUM reported on your annual updating amendment has decreased below \$25,000,000, you will likely be required to withdraw your SEC investment adviser registration by June 30, 2010. In that case, unless you qualify for an exemption from state registration, you will need to apply for state registration a reasonable time before withdrawing your SEC registration. You should contact us if you believe that this requirement may apply to your firm.

3. Other Amendments to Form ADV. In addition to the annual updating amendment, an SEC-registered adviser must amend Part 1A of its Form ADV promptly during the year if (a) any information provided in response to Item 1, 3, 9 or 11 of Part 1A becomes inaccurate in any way or (b) any information provided in response to Item 4, 8 or 10 (including Schedules A and B) of Part 1A becomes materially inaccurate. Part II (including Schedule F) must be amended promptly if any information in it becomes materially inaccurate.

4. Annual Offer of Part II. An SEC-registered adviser must offer to provide Part II of its Form ADV or a brochure containing equivalent information at least annually to each

advisory client and to each limited partner of an investment limited partnership that the adviser manages. One convenient way to make the offer is to include it in an individual account client's first quarter bill or in the letter to limited partners reporting last year's results.

5. State Notice Filings. An SEC-registered adviser may be required to make notice filings and pay fees in states in which it has clients or a place of business. Some states require SEC-registered advisers making notice filings to file Part II (including Schedule F) of Form ADV and other documents. An SEC-registered adviser that makes state notice filings should have received an electronic package from FINRA last fall with instructions for renewing those notice filings and paying the required 2010 renewal fees through the IARD system. These fees differ from the IARD filing fees mentioned above in Item 1.

6. Investment Adviser Representatives. An SEC-registered adviser may be required to register each of its investment adviser representatives in each state in which the representative has clients or a place of business. You should ascertain whether any of your firm's personnel should be registered as "investment adviser representatives" in one or more states, and, if so, register those persons or renew their registrations in the appropriate states.

7. Code of Ethics; Annual Review of Policies and Procedures. An SEC-registered adviser must provide a copy of its code of ethics to any client or prospective client on request. An SEC-registered adviser also must review its compliance policies and procedures annually, document that review and require employees to certify quarterly or annually that they have complied with the policies and procedures. Even if your firm is not SEC-registered, your policies and procedures may require an annual review. In general, the review should cover the following areas:

(a) **General Review.** According to the SEC, the review should consider any compliance matters that arose last year, any changes in your firm's business activities, and any changes in the Advisers Act or its rules that might suggest a need to revise your firm's policies and procedures.

(b) **Code of Ethics.** An SEC-registered adviser must review the adequacy of its code of ethics annually and assess the effectiveness of its implementation. In addition, an SEC-registered adviser should determine whether it needs to provide any ethics training to its employees or enhancements to its code in light of current business practices.

(c) **Business Continuity/Disaster Recovery Plans.** An SEC-registered adviser should review and test its required business continuity/disaster recovery plans at least annually.

If you have not already done so, you should consult us before you review your firm's compliance policies and procedures.

California Investment Advisers Not Registered in California or with the SEC. If your firm has an office in California and relies on exemptions from registration as an investment adviser with both the SEC and California and if your firm's AUM has decreased to less than

\$25,000,000, your firm likely is now required to be registered as an investment adviser in California. You should contact us immediately if this requirement may apply to your firm.

Investment Advisers Certificated by California Commissioner of Corporations (the “Commissioner”).

1. Annual Updating Amendment of Form ADV. If you are a California-registered adviser, you must file with the Commissioner, within ninety days after the end of your fiscal year, an annual updating amendment of your Form ADV. You must amend both Part 1 and Part II (including Schedule F) electronically on the IARD system. When you amend Part 1, the IARD system will prompt you to indicate the type of amendment. You should select “annual updating amendment.”

To amend Part II (including Schedule F) you do not complete an online form as you do for Part 1. Instead you must submit your amended Part II as a separate document in text-searchable PDF format. The IARD will not accept any other format, including a PDF file containing a scanned copy of a paper document.

For 2010 renewals, the IARD annual \$100 system processing fee for investment advisers and the \$45 system processing fee for investment adviser representatives have been waived.

2. Other Amendments to Form ADV. A California-registered adviser also must amend Part 1 of its Form ADV promptly during the year to reflect any change in the information reported (other than financial information) and must amend Part II (including Schedule F) through the IARD whenever a material change occurs.

3. Investment Adviser Representatives. A California-registered adviser must report its investment adviser representatives electronically on Form U4, and must report a terminated investment adviser representative on Form U5 within thirty days after his or her termination. Forms U4 and U5 were amended in 2009. The changes include additional questions about regulatory actions. The revised Forms were implemented on May 18, 2009, and the effective date for responding to the new regulatory action disclosure questions was November 14, 2009. FINRA should have notified you of the changes, but if you did not file an amended Form U4 for each of your investment adviser representatives, please contact us.

4. California Annual Fees. A California-registered adviser must pay a \$125 annual fee before December 15 of each year. You should have received an electronic package from FINRA with instructions on the procedures for paying the \$125 fee to California through the IARD system. If your firm did not receive that package or otherwise did not pay the annual fee for 2010, please contact us. An adviser that fails to pay the fee could have its investment adviser certificate summarily revoked. This fee is different from the system processing fees mentioned above in Item 1 and has not been waived.

5. Balance Sheet and Income Statement, Minimum Financial Requirements Computation and Verification. A California-registered adviser with investment discretion over client assets or that receives fees for advisory services six months or more in advance must (a) maintain in its records a written monthly calculation indicating that it satisfies California’s

minimum financial requirements (generally a minimum net worth of \$12,000 for an adviser that does not have custody of client assets) and (b) file with the Commissioner an annual balance sheet and income statement prepared in accordance with generally accepted accounting principles, together with a schedule showing that the adviser satisfies the minimum financial requirements. The financial statements included in the filed report must be audited, unless the adviser, during the period covered by the report, has not held or accepted custody of funds or securities for any client or owed money or securities to any client, and has taken only limited powers of attorney to execute transactions on behalf of clients. The report should be filed as of the same date for each calendar year, except that the first report must be as of a date within twelve months after the adviser's certificate became effective. You should submit the financial information with the verification form required by the Commissioner within ninety days after the date as of which the financial information is provided. The verification and minimum financial requirements forms are attached. You should ask your firm's accountants to assist you in preparing the statement of financial condition and income statement.

6. Other State Registration Requirements. A California (or other state) registered adviser also may be required to register in states in which the adviser has clients or any investment adviser representatives.

7. Annual Offer of Form ADV, Part II. An adviser registered in California or any other state should offer to provide Part II of its Form ADV or a brochure containing equivalent information at least annually to each advisory client and to each limited partner of an investment limited partnership that the adviser manages. One convenient way to make the offer is to include it in an individual account client's first quarter bill or in the letter to limited partners reporting last year's results.

8. Switching to SEC Registration. If your firm's AUM has increased to \$25,000,000 or more, you should contact us to discuss whether you are required to register with the SEC as an investment adviser or whether you are eligible to withdraw your California registration under an exemption that is used principally by hedge fund management firms.

Investment Advisers Not Registered with the SEC That Have Clients or Offices in States Other than California. If you have one or more clients or offices in states other than California and are not registered with the SEC, you may be required to register in each such state.

Other Issues.

1. San Francisco Payroll Tax. Investment advisers who have offices in San Francisco should be aware that the San Francisco payroll tax was amended in 2008, effective for 2009 and subsequent years. The payroll tax is 1.5 percent of the payroll expense of any entity doing business in San Francisco. Previously, the tax did not apply to amounts distributed to owners of businesses other than as salaries and bonuses. The law now provides that taxable payroll expense includes "compensation for services to owners of pass-through entities." The statute is not clear on how to calculate "compensation for services" for such owners, although there is a safe harbor that owners of businesses can use to determine this amount. The San Francisco Payroll Tax Statement for 2009 is due February 28, 2010. If you have offices in San Francisco, you should consult us or your accountants on how to calculate the tax for 2009.

2. Employee Confidentiality and Non-Solicitation Agreements. California law regarding employee confidentiality and non-solicitation agreements changes from time to time because of new judicial decisions. If your firm has employees in California with whom you have agreements that include non-solicitation provisions, you should have us review those agreements.

3. Annual Notice of Privacy Policy. Investment advisers, whether or not registered with the SEC, and hedge funds domiciled in the U.S. or having U.S. investors, are subject to SEC and Federal Trade Commission regulations governing the privacy of consumer financial information (the "Privacy Regulations"). The Privacy Regulations require every such adviser and hedge fund to establish policies and procedures to protect the confidentiality of client or investor records and to provide initial and annual notices to each client or investor who is an individual (or the alter ego of an individual) disclosing the types of non-public personal information that the adviser or hedge fund collects and the extent to which it discloses that information. Your privacy policy and notices must reflect recent changes in privacy laws and regulations. Please call us if you share your clients' or investors' information with anyone, including affiliated entities, or if you obtain consumers' credit reports in your business.

The annual notice required by the Privacy Regulations must be delivered at least once during each twelve-month period. You may define the twelve-month period, but you must apply it consistently. You may deliver the annual notice conveniently by including it in an individual account client's first quarter bill or in your annual letter to limited partners reporting last year's results. The Privacy Regulations were amended in 2009 to include a model privacy form. We will send you a letter describing this change within the next few weeks. After providing a notice to a client or hedge fund investor, you may not disclose any non-public personal information of that client or investor to an affiliate or a third party other than as described in the notice, unless you first give a new notice to the client or investor describing the proposed disclosure.

4. Investment Partnership Issues.

(a) **New York Power of Attorney.** New York amended its law in 2009 to change the requirements for powers of attorney signed by individuals in New York. The amendment applies to any power of attorney signed by an individual (or an individual signing as trustee of a trust) who is physically present in New York when he or she signs it, unless the individual is signing on behalf of an entity and not in his or her personal or fiduciary capacity. The amendment affects your firm if it either:

- manages an investment fund that uses a power of attorney in its subscription agreement or limited partnership agreement and receives a subscription agreement signed in New York by an individual subscriber or a trustee or custodian who is an individual, or
- enters into an investment advisory agreement that includes a power of attorney with a client who is an individual or a trustee or custodian who is an individual and is in New York when he or she signs the agreement.

If your firm is the general partner of a domestic hedge fund that has a subscriber, a trustee or a custodian under a UTMA or UGMA account who is an individual and who signs subscription documents that include a power of attorney in New York on or after September 1, 2009, New York law requires the new power of attorney for that subscription. As discussed in our letter to clients last October, it is essential that the power of attorney be effective and binding. You should update your fund's forms of subscription agreement and investment advisory agreement, if you have not already done so.

(b) **Amendments to Form D.** Form D is the required notice of an offering of securities without registration under the Securities Act of 1933 in reliance on an exemption under Regulation D. It is filed with the SEC and in the states where a hedge fund sells interests to U.S. persons. We can prepare Form D for your signature and file it on your behalf. The SEC amended its rules in 2009 to require that Form D be filed electronically and that it be amended annually. To file electronically, you must obtain electronic filing codes from the SEC. If you have not filed an electronic Form D or we have not filed one on your behalf, you should contact us about obtaining those codes and making the required amendment. Currently, only Forms D filed with the SEC are filed electronically. Forms D filed with state securities authorities are still filed on paper.

(c) **Blue Sky.** Before offering or selling any interests in a hedge fund to U.S. persons, you should inform us of the states of residence of potential new investors and of existing investors who may purchase additional interests or shares, so that we can review and advise you on compliance with applicable state securities laws and obtain the necessary electronic filing codes in advance of the filing deadline if such offer and sale requires that a Form D be filed with the SEC.

(d) **New Issues.** You may rely on representations of funds-of-funds in their questionnaires regarding their ability to participate in profits and losses from "new issues" for one year. After that, you must obtain a recertification of those representations. You should contact us before you prepare to obtain the recertifications so that we can advise you on appropriate documentation.

(e) **Updating Offering Documents.** If you manage a hedge fund, you should review and update the fund offering documents annually to reflect changes in such matters as soft dollar arrangements and other brokerage practices, performance data, annual financial information and tax and legal requirements.

(f) **Designation of Liquidating Person.** If you manage a hedge fund under a limited partnership agreement that provides for the designation of a "Liquidating Person" to liquidate the partnership's assets if the general partner is unable to do so, you should confirm that your appointment of a Liquidating Person, if any, is consistent with your current desires. Please call us if you would like to appoint or replace a Liquidating Person.

(g) **Investors that Are Mutual Funds.** If a registered investment company (a "mutual fund") is an investor in a hedge fund that you manage, please contact us to discuss whether the mutual fund may be an "affiliate" of the fund if it owns five percent or more of the fund.

(h) **3(c)(1) Count.** If any domestic or offshore hedge fund that you manage relies on the exception from the definition of “investment company” in section 3(c)(1) of the Investment Company Act of 1940, you should consider consulting with us regarding the number of investors in that fund for purposes of the 100-investor limit in section 3(c)(1). The SEC rules for counting investors for this purpose are complex and technical.

5. Compliance Policies. Whether or not your firm is registered with the SEC, we recommend that you discuss with us adopting and annually reviewing a code of ethics and compliance procedures. Among other things, your compliance procedures should (and probably do) require that each employee certify quarterly or annually that he or she has complied with those procedures, and you should now require each employee to submit that certification to your compliance officer for 2009. Your compliance procedures also should (and probably do) require that they be reviewed annually (see item 7 on page 2 above).

6. Management Company Allocations. If your firm is organized as a limited liability company or limited partnership, you may have issued profit interests to key employees. If your operating agreement or limited partnership agreement provides that the manager or general partner may adjust each participant’s profit interest for the coming year on or before a specified date (typically January 31 of that year), you should make these allocation decisions, in writing and in accordance with the applicable operating agreement or limited partnership agreement, on or before the specified date.

7. Section 13 and 16 Filings.

(a) **Schedule 13D/13G.** If you have or share investment discretion or voting power over five percent or more of a class of securities of a public company, you may be required to file Schedule 13D or 13G. If you have reached or anticipate reaching that threshold with respect to any class of securities, you should contact us. If you have filed a Schedule 13G and the information in it had changed as of December 31, 2009, you may be required to file an amended Schedule 13G by February 16, 2010.

(b) **Forms 3, 4 and 5.** If you have or share investment discretion or voting power over more than ten percent of a class of equity securities of a publicly traded company, or if you or any of your affiliates is a director or officer of a publicly traded company, you or your affiliate may be required to file with the SEC an initial ownership report on Form 3 within ten days after exceeding the ten percent threshold. Such an insider generally must report changes in its beneficial ownership of securities on Form 4 (typically, a purchase or sale of the issuer’s securities, including cross trades between funds that your firm manages) within two business days after the date of the change. An annual report on Form 5 must be filed with the SEC within forty-five days after the fiscal year by every person who was an insider of a publicly traded company during the year to report previously unreported transactions during the year that should have been reported on Form 4 but were not, and certain other transactions that may be reported on Form 5.

(c) **Form 13F.** Whether or not you are SEC-registered, if you exercise investment discretion over \$100,000,000 or more invested in “13(f) securities” traded on a national securities exchange, you must file a report of your holdings with the SEC on Form 13F

within forty-five days after the end of the first calendar year in which you reached the \$100,000,000 threshold as of the end of any month, and must make quarterly filings thereafter. 13(f) securities include stocks, certain options, warrants, convertible debt securities and exchange-traded funds. A list of 13(f) securities is posted on the SEC's website at www.sec.gov/divisions/investment/13flists.htm.

8. Covenants in Swap, Securities Lending and Margin Lending Agreements.

Most swap, securities lending and margin lending agreements (some of which may be in prime brokerage account agreements) include covenants that require your firm or its client or fund to notify the counterparty if certain events occur. One common covenant requires notice to the counterparty if the net asset value of the client or fund decreases more than a specified percentage during a given period or below a specified amount. You should review those provisions carefully. You should also comply with other common covenants that require that you deliver information (such as monthly NAV estimates and your funds' audited financial statements) by the specified deadlines.

9. Commodities and Futures Trading. If you are a registered commodity pool operator, you must comply with the following requirements

(a) **Update NFA Registration.** You must update your firm's registration information via the National Futures Association's ("NFA") electronic filing system, including electronically submitting the NFA's Annual Questionnaire and paying your annual NFA membership dues within thirty days of the anniversary date that your firm's registration became effective.

(b) **Complete NFA Self-Examination Questionnaire.** Your firm must complete the NFA's "self-examination questionnaire" annually. The completed questionnaire is not filed with NFA, but must be retained in your firm's records. As part of this review, you should review your compliance policies and procedures, and confirm whether amendments to those procedures, or additional procedures, may be warranted in light of your firm's current business.

(c) **File and Distribute Commodity Pool Certified Annual Reports.** For each pool that your firm manages, your firm must prepare an annual report containing financial information required by rules adopted by the Commodity Futures Trading Commission (the "CFTC"). Within ninety days after the end of the pool's fiscal year, you must furnish one copy to each pool participant and one copy to the NFA. In addition, your disclosure document must be updated regularly as required by CFTC rules and may need to be filed with the CFTC and the NFA.

(d) **Other Annual Requirements.** At least annually, you must:

(i) test your disaster recovery plan and make any necessary adjustments;

(ii) provide ethics training as outlined in your firm's written ethics training procedures;

January 13, 2010

Page 9

- (iii) file any new exemption notices electronically with the NFA; and
- (iv) update your CPO Questionnaire on NFA's website for any pools that have liquidated.

We will be pleased to respond to any questions, to assist you in preparing needed forms and otherwise to assist you in satisfying any of the requirements discussed in this letter. Please contact Doug Hammer, John Broadhurst, Geoffrey Haynes, Chris Rupright, Carolyn Reiser, Neil Koren, Jim Frolik, Joan Grant, Lyn Roberts, Anthony Caldwell, Christina Mickelson, David Hong or Kim Letter.

SHARTSIS FRIESE LLP

Enclosure

TO THE COMMISSIONER OF CORPORATIONS OF
THE STATE OF CALIFORNIA

VERIFICATION FORM PURSUANT TO
RULE 260.241.2(b)

(Executed WITHIN or WITHOUT of the State of California)

I, _____, certify under penalty of perjury under the laws of the State of California that I have read the annexed financial report and supporting schedules and know the contents thereof to be true and correct to my best knowledge and belief; and neither the licensee nor any partner, officer, or director thereof have any proprietary interest in any account classified solely as that of a customer.

Executed this ____ day of _____, _____, at

_____ City _____ State

(Signature of person signing report)

(Title of person signing report)

(Name of Licensee)

(File Number)

INSTRUCTIONS:

If the broker-dealer, investment adviser is a sole proprietorship, the verification shall be made by the proprietor; if a partnership, by a general partner; or if a corporation, by a duly authorized officer.

**STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
Department of Corporations**

**MINIMUM FINANCIAL REQUIREMENTS WORKSHEET
Section 260.237.2 CCR**

FILE NUMBER: _____

APPLICANT'S NAME: _____

COMPUTATIONS AS OF: _____

TYPE OF REPORT (Initial, Annual, Interim, Exam): **Annual**

SUMMARY:

NET WORTH	From (b) below	A	-
MINIMUM NET WORTH REQUIRED	[Per Section 260.237.2(a)(b) CCR]	B	10,000.00
EXCESS/ (DEFICIT) IN NET WORTH	[A-B]		
EXCESS/ (DEFICIT) IN NET WORTH @120%	From (d) below	C	

NET WORTH [Per Section 260.237.2(d)]

TOTAL ASSETS			-
Less: EXCLUDED ASSETS	From (c) below	a	0.00
Total Allowed Assets			-
TOTAL LIABILITIES			-
NET WORTH (Total Allowed Assets - Total Liabilities)	(Transfer to A above)	b	-

EXCLUDED ASSETS [Per Section 260.237.2(d)]

NON CURRENT PREPAID EXPENSES			0.00
DEFERRED CHARGES			0.00
GOODWILL			0.00
FRANCHISE RIGHTS			0.00
ORGANIZATIONAL EXPENSES			0.00
PATENTS			0.00
COPYRIGHTS			0.00
MARKETING RIGHTS			0.00
UNAMORTIZED DEBT DISCOUNT AND EXPENSE			0.00
ALL OTHER ASSETS OF INTANGIBLE NATURE			0.00
HOME, HOME FURNISHINGS, AUTOMOBILES AND OTHER PERSONAL ITEMS NOT READILY MARKETABLE (INDIVIDUAL)			0.00
ADVANCES OR LOANS TO STOCKHOLDERS AND OFFICERS			0.00
ADVANCES OR LOANS TO PARTNERS (PARTNERSHIP)			0.00
TOTAL EXCLUDED ASSETS	(Transfer to a above)	c	0.00

120% TEST [Per Section 260.241.2(d)]

NET WORTH	(From (A) above)		-
MINIMUM NET WORTH REQUIRED @ 120%	(From (B) above x 120%)		12,000.00
EXCESS/ (DEFICIT) IN NET WORTH @120%	(Transfer to C Above)	d	