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VIA E-MAIL

To Our Investment Adviser Clients and Other Friends:

This is our annual letter briefly reviewing various issues that our investment adviser clients should consider over the next few weeks.

Federally Registered Investment Advisers

1. Annual Updating Amendment to Form ADV. If your firm is an SEC-registered adviser, it must amend its Form ADV each year on the IARD within ninety days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2012, the deadline is April 1, 2013. This annual amendment must update your firm's responses to all items of Parts 1 and 2 of Form ADV.

When you amend Part 1, the IARD will prompt you to indicate the type of amendment. You should select "annual updating amendment." Unlike Part 1, Part 2A is not an online form. Instead, you must submit Part 2A electronically 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. An SEC-registered investment adviser is not required to file Part 2B or any amendments to it, but is required to keep its updated Part 2B in its records.

The IARD filing fees for an SEC-registered adviser for an annual updating amendment are (a) $40 if the adviser's regulatory assets under management ("RAUM") are below $25,000,000, (b) $150 if the adviser's RAUM is between $25,000,000 and $100,000,000 and (c) $225 if the adviser's RAUM is over $100,000,000. Your firm's RAUM is its assets under management that it reports in Part 1A, Item 5.F of Form ADV. You must fund your IARD account with the appropriate amount before you submit the amendment.

2. 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 in Item 1, 3, 9 or 11 of Part 1A becomes inaccurate in any way or (b) any information in Item 4, 8 or 10 (including Schedules A and B) of Part 1A becomes materially inaccurate. Part 2 must be amended promptly whenever any information in it becomes materially inaccurate.

3. Requirements to Deliver Part 2 to Clients. An SEC-registered adviser whose Part 2A has materially changed since the last annual updating amendment must deliver to clients annually within 120 days after the adviser's fiscal year end either (a) an amended Part 2A, including a material changes summary, or (b) a separate material changes summary that also offers to provide a copy of Part 2A. Clients that previously received Part 2B need not be provided with an updated copy of Part 2B unless the disciplinary information disclosed in it has changed materially.

For advisers to hedge funds, the Part 2 delivery obligation applies to the funds and not to investors in the funds. To reduce the likelihood of possible claims under the anti-fraud provisions of federal and state securities laws, however, an adviser to a hedge fund should consider furnishing Part 2 to each investor in the fund.

4. Switching to State Registration. If your firm's RAUM reported on its annual updating amendment is below $90,000,000, it will likely be required to withdraw its SEC investment adviser registration by July 1, 2013. In that case, unless it qualifies for an exemption from state registration, it must file an application for state registration at least 120 days before withdrawing its SEC registration.

5. Switching to the Exempt Reporting Adviser Exemption. An investment adviser with RAUM under $150,000,000 that advises only private funds is exempt from SEC registration as an exempt reporting adviser. (California has adopted a similar registration exemption that is discussed on page 5 below). A private fund is a fund that would be an investment company under the Investment Company Act of 1940 (the "ICA"), but for ICA section 3(c)(1) or 3(c)(7). Most hedge funds, private equity funds and venture capital funds are private funds.

Exempt reporting advisers are required to file Part 1A of Form ADV on the IARD, disclosing organizational and operational information, but do not need to include all of the information that SEC-registered investment advisers are required to include. Such Part 1A must be amended as described on page 3. An exempt reporting adviser is not required to prepare and deliver to investors Part 2 of Form ADV. A registered adviser that is switching to exempt reporting adviser status must first withdraw its registration by filing Form ADV-W on the IARD before filing its first Part 1A as an exempt reporting adviser.

An investment adviser that is exempt from registering with the SEC as an investment adviser because it is an exempt reporting adviser may be required to register as an investment adviser in each state where it has an office, as discussed on page 7 below.

6. State Notice Filings. An SEC-registered adviser may be required to make notice filings and pay fees in each state in which it has clients or a place of business. Some states require an SEC-registered adviser making notice filings to file its Form ADV Part 2 and other documents. An SEC-registered adviser that has previously made state notice filings should have received an electronic package from FINRA last fall with instructions for renewing those notice filings and paying the required 2013 renewal fees through the IARD system. These fees are in addition to the IARD filing fees mentioned above in Item 1.

7. 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.

8. 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 the review and require employees to certify quarterly or annually that they have complied with the policies and procedures. If the SEC examines your firm, the staff will request these documents. Even if your firm is not SEC-registered, your policies and procedures may require an annual review. In general, the review should cover at least the following areas:

(a) **General Review**. The SEC believes 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 the rules under it that require revisions to your firm's policies and procedures. You should also make sure that your policies and procedures are adequately tailored to your business and that your firm is following them.

(b) **Code of Ethics**. An SEC-registered adviser must review the adequacy of its code of ethics annually, document that review and assess the effectiveness of the code's implementation. An SEC-registered adviser also should determine whether it should provide ethics training to its employees or enhancements to its code in light of its current practices.

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

(d) **Execution Services.** An SEC-registered adviser should evaluate at least annually the execution services it receives from brokers it uses to execute trades for clients.

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

<u>Exempt Reporting Advisers</u>

1. Annual Updating Amendment to Form ADV. If your firm is an exempt reporting adviser, it must amend its report on Form ADV each year on the IARD by filing an annual updating amendment within ninety days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2012, the deadline is April 1, 2013. When you submit your firm's annual updating amendment, you must update the responses to all required items of Part 1A, including corresponding sections of Schedules A, B, C and D.

2. Other Amendments. In addition to the annual updating amendment, an exempt reporting adviser must amend Form ADV promptly during the year if information in Item 1, 3, or 11 becomes inaccurate in any way or information in Item 10 becomes materially inaccurate.

California Investment Advisers Not Registered in California or with the SEC

If your firm has an office in California and it is not registered as an investment adviser with either the SEC or California, you should contact us immediately to determine whether it is required to register or may rely on the SEC's exempt reporting adviser exemption discussed on page 2 above and the California private fund adviser exemption discussed on page 5 below.

If your firm is relying on the SEC exempt reporting adviser and California private fund adviser exemptions, it must register with the SEC and make a California notice filing before accepting any client that is not a private fund. If your firm reports on its Form ADV annual updating amendment that its RAUM has reached at least $150,000,000 and it has complied with all reporting requirements applicable to an exempt reporting adviser, it must file an application to register as an investment adviser with the SEC and make a notice filing in California within ninety days after filing that annual updating amendment. If your firm has not complied with all SEC reporting requirements applicable to an exempt reporting adviser, this ninety-day transition period is not available. In that case, unless your firm qualifies for another exemption, its application for registration must be approved by the SEC before its RAUM reaches $150,000,000.

Investment Advisers Certificated by California Commissioner of Corporations

1. Annual Updating Amendment of Form ADV. If your firm is a California-registered adviser, it must amend its Form ADV each year on the IARD within ninety days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2012, the deadline is April 1, 2013. The firm must update all of Parts 1 and 2.

When you amend Part 1, the IARD system will prompt you to indicate the type of amendment. You should select "annual updating amendment." Unlike Part 1, Parts 2A and 2B are not online forms. Instead, you must submit them electronically on the IARD as separate documents 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 2013 renewals, the IARD has waived its annual $100 system processing fee for investment advisers and $45 system processing fee for investment adviser representatives.

2. Other Amendments to Form ADV. A California-registered adviser must also 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 promptly amend Parts 2A and 2B through the IARD whenever a material change occurs.

3. Part 2 Client Delivery Requirements. The California Commissioner of Corporations encourages all California-registered advisers to deliver Part 2 to clients on the same schedule that applies to SEC-registered advisers as summarized in item 3 on page 2 above.

4. Switching to SEC Registration. If your firm's RAUM (defined above) is $100,000,000 or more, you should contact us to discuss whether you must register with the SEC

as an investment adviser. Your firm's RAUM is its assets under management that it reports in Part 1A, Item 5.F of Form ADV.

5. Switching to the Private Fund Adviser Exemption. If your firm's RAUM is below $150,000,000 and it advises only private funds, it may be eligible for the California private fund adviser exemption, which is similar to the SEC exempt reporting adviser exemption summarized in item 5 on page 2 above. To rely on the California exemption, a private fund adviser must meet the following requirements:

- It must pay the application and renewal fees required of a California-registered adviser and file the abbreviated Form ADV Part 1 that is required of SEC-exempt reporting advisers.

- Neither the adviser nor any of its advisory affiliates may have committed any disqualifying act, or have done any of the acts or satisfied any of the circumstances providing grounds for the California Commissioner of Corporations to deny, suspend or revoke its or their investment adviser certificates. Disqualifying acts are set forth in Rule 262 of Regulation A under the Securities Act of 1933, as amended (the "1933 Act"), and generally are acts that would result in a disciplinary action that must be disclosed on Form ADV.

- An adviser that registers with the SEC may not rely on the California private fund adviser exemption and must comply with California's notice filing requirements.

A private fund adviser that advises a "retail buyer fund" must meet the additional requirements listed below. A retail buyer fund is a private fund that is not a venture capital company and that is excluded from the definition of "investment company" under ICA section 3(c)(1) or 3(c)(5). A fund that is excluded under ICA section 3(c)(7) is not a retail buyer fund.

- Each investor in a retail buyer fund must either (a) be an accredited investor or a manager, director, officer or employee of the adviser, or (b) obtain the interests in the fund through a divorce settlement, gift, inheritance or other transfer that is not a sale.

- At or before the time an investor invests in a retail buyer fund, the adviser must disclose in writing to such investor information about the services the adviser will provide and the duties, if any, it owes to the fund and such investor.

- The adviser must provide the fund's annual audited financial statements to each investor within 120 days after the end of each fiscal year (or 180 days for a fund of funds). The auditor must be a member of, and inspected by, the PCAOB.

- The adviser must comply with the performance fee rule, which is discussed on pages 12 and 13 below.

6. 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.

7. California Annual Fees. A California-registered adviser must pay a $125 annual fee before December 15 of each year. This fee is in addition to the fees mentioned above in Item 1 and has not been waived. You should have received an electronic package from FINRA in late 2012 with instructions on the procedures for paying this fee through the IARD system. If your firm did not receive that package or otherwise did not pay the annual fee for 2013, please contact us. An adviser that failed to pay the fee in December should have received a notice from FINRA and now has a "Failure to Renew" registration status on the SEC's Investment Adviser Public Disclosure website. Such an adviser that continues to fail to pay the fee could have its investment adviser certificate summarily revoked.

8. Balance Sheet and Income Statement, Minimum Financial Requirements Computation and Verification. A California-registered adviser that has 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.

If you are, or your affiliate is, the general partner of an investment limited partnership, you are not deemed to have custody of the partnership's assets if you have engaged an attorney or independent certified public accountant to authorize transfers of funds and securities from the partnership account to you, such general partner or your affiliates. California has proposed a new custody rule that, if adopted, would require investment advisers relying on this provision to have all direct payments or transfers from such a partnership's account authorized by an attorney or independent certified public accountant, not just payments or transfers to the general partner and its affiliates. Item 2.I(2)(a) of Part 1B of Form ADV applicable to California-registered investment advisers reflects the proposed rule even though it has not yet been adopted. Typically, a California-registered general partner of an investment limited partnership currently has only payments to the general partner and its affiliates, and not also payments to limited partners and third parties, from the partnership's account approved by an independent representative. Such an adviser must now answer "no" to this item. Please call us if you would like to discuss.

The financial statements and accompanying schedules 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 to this letter. Your firm's accountants may be able to assist you as needed in preparing the statement of financial condition and income statement.

9. 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.

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 any state other than California and are not registered with the SEC, you may be required to register in that state. If your firm's RAUM is $25,000,000 or more, you should contact us to discuss whether you must register with the SEC as an investment adviser or may rely on the SEC's exempt reporting adviser exemption.

If your firm is relying on the SEC exempt reporting adviser exemption, it must register with the SEC before accepting any client that is not a private fund. If your firm reports on its Form ADV annual updating amendment that its RAUM is $150,000,000 or more and it has complied with all reporting requirements applicable to an exempt reporting adviser, it must file an application to register as an investment adviser with the SEC within ninety days after filing that annual updating amendment. If your firm has not complied with all SEC reporting requirements applicable to an exempt reporting adviser, this ninety-day transition period is not available, and if your firm does not qualify for another exemption, its application for registration must be approved by the SEC before its RAUM reaches $150,000,000.

Other Issues

1. San Francisco Gross Receipts Tax. San Francisco voters recently approved replacing the current payroll expense tax with a gross receipts tax. For investment advisers and others in the financial services industry the tax will be imposed at rates from 0.40% to 0.56%, depending on the amount of gross receipts attributable to San Francisco. Gross receipts generally are allocated based on the percentage of a company's payroll attributable to San Francisco. Although this rate is lower than the current 1.5% rate imposed on San Francisco-based payroll expense, some investment advisers will see their overall San Francisco tax increase, because their gross receipts for this purpose will be substantially greater than their payroll expense. The new tax will gradually phase in and replace the payroll expense tax over five years beginning in 2014.

An investment fund is generally treated as not having gross receipts for purposes of the tax, even if the fund's investment adviser is located in San Francisco. Net gain on investment of an investment adviser's own capital also should not be included in its gross receipts. An investment adviser will, however, be required to include management fees and performance-based fees in its gross receipts. The ordinance is not entirely clear about whether a performance-based profit allocation or carried interest should be included in the gross receipts of an investment adviser located in San Francisco. An investment adviser in San Francisco should consult us or its accountants to discuss how the ordinance affects it.

2. ERISA Fee Disclosures. The Department of Labor recently adopted an ERISA regulation that requires an investment adviser to disclose to an ERISA plan fiduciary information

about the direct and indirect compensation that the adviser receives for providing services to the ERISA plan. In general, an investment adviser must disclose:

- A description of the services that the adviser provides to the plan;
- That the Adviser provides services to the plan as an ERISA fiduciary and registered investment adviser;
- Compensation the adviser receives from the plan ("direct" compensation);
- Compensation the adviser receives from other parties that are not related to the adviser ("indirect" compensation);
- Compensation that is paid among the adviser and related parties; and
- Compensation the adviser receives if the plan terminates its service agreement with the adviser.

If your firm manages an ERISA plan account or an ERISA plan assets fund and you have not made these disclosures to the plan fiduciary, please contact us immediately.

3. 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.

4. 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. These 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 consumer credit reports in your business.

The required annual notice must be delivered at least once every twelve months. 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.

5. Foreign Bank Account Reports. Every U.S. person or entity that had a financial interest in, or signatory authority over, a financial account in a foreign country in 2012 generally must file Form TD F 90-22.1 if the aggregate value of all such accounts exceeded $10,000 at any

time during 2012. The Form must be received by the Department of Treasury by June 30, 2013. Failure to file the Form when required can result in significant monetary or criminal penalties. You should consult us or your accountants on whether you must file this Form.

6. Investment Partnership and Fund Issues.

(a) **Form PF**. The SEC and the Commodity Futures Trading Commission (the "CFTC") adopted rules requiring investment advisers to larger private funds to file Form PF, which elicits substantial non-public information about investment advisers and private funds to assist the government in monitoring potential systemic risk. An investment adviser must file Form PF if has RAUM of at least $150,000,000 attributable to private funds and is registered (or required to be registered) either with the SEC as an investment adviser or with the CFTC as a commodity pool operator ("CPO") or commodity trading adviser ("CTA"). The SEC and CFTC are required to keep all Form PF information confidential and cannot be compelled to disclose it pursuant to the Freedom of Information Act, but may use it for inspection and enforcement purposes.

Most advisers are required to file an initial Form PF by April 30, 2013, but an adviser with RAUM of at least $1,500,000,000 must file by March 1, 2013. It will take substantial time and effort to compile the information necessary to prepare Form PF. You should already be considering how you will compile this information. A number of service providers have developed products and services intended to facilitate that process. Please call us if you would like to discuss preparing to file Form PF.

(b) **Issues Affecting Managers of Funds that Trade Commodity Interests and Swaps.**

(i) **Elimination of Rule 4.13(a)(4) CPO Registration Exemption**. Effective December 31, 2012, the CFTC revoked the CPO registration exemption in CFTC Rule 4.13(a)(4), on which CPOs of 3(c)(7) funds that invest in commodity interests typically relied. Such a CPO that intends to continue to invest in commodity interests for funds that it manages should have qualified for another exemption (such as the Rule 4.13(a)(3) exemption described below) or registered with the CFTC as a CPO before December 31, 2012. If your firm did not do so, please contact us immediately. A brief summary of the reporting obligations applicable to a registered CPO is on pages 16 and 17.

(ii) **Definition of Commodity Interest Changed to Include Swaps.** The elimination of the Rule 4.13(a)(4) exemption affected a larger group of fund advisers than those that trade commodity interests, because the Dodd-Frank Act expanded the definitions of "commodity pool operator" and "commodity trading adviser" to include advisers that invest in swaps. Previously, only advisers to accounts that invested in commodity interests were CPOs and CTAs and subject to regulation by the CFTC. As of January 1, 2013, an investment adviser to accounts that invest in swaps is a CPO or CTA, or both, even if it does not invest in commodity interests. Therefore, all advisers, including those that have not previously needed to consider CFTC registration because they do not invest in commodity interests, must now determine whether the instruments in which they invest include swaps. The new definition of a swap is complex. Some instruments that are commonly called swaps are not treated as swaps,

and some instruments that are not traditionally called swaps are now treated as swaps. An investment adviser that is a CPO or CTA under the new definition because of its swaps trading should have exited the swaps markets, registered with the CFTC or filed a notice of reliance on an available exemption by December 31, 2012. If you have not considered or discussed with us whether your firm's swaps trading might cause it to be a CPO or a CTA, you should do so immediately.

(iii) **Changes Affecting Advisers that Rely on Rule 4.13(a)(3) CPO Registration Exemption.** The remaining exemption from CPO registration that is widely used by CPOs of private funds is in CFTC Rule 4.13(a)(3). This exemption is available to managers of funds whose investments in commodity interests are very limited. A fund may qualify for it if either (A) the aggregate initial margin and premiums required to establish the fund's positions in commodity interests do not exceed five percent (measured when the most recent position was established) of the liquidation value of the fund's portfolio, taking unrealized profits and losses into account, or (B) the aggregate net notional value of the fund's positions in commodity interests is not greater than the portfolio's liquidation value. The exemption also requires that the fund be privately offered and not marketed as a vehicle for trading commodity interests and generally requires that U.S. investors in the fund be accredited investors as defined in Regulation D under the 1933 Act or knowledgeable employees.

Funds that invest in commodity interests mainly for hedging purposes can usually stay within the Rule 4.13(a)(3) trading limits. A CPO that invests in swaps, however, must now take them into account, along with its commodity interest trading, in determining whether its funds comply with the Rule 4.13(a)(3) trading limits.

A CPO relying on the 4.13(a)(3) exemption previously was required to file a claim of exemption for a fund with the National Futures Association (the "NFA") only once. Such a CPO must now reaffirm each claim of exemption annually within sixty days after the end of each year. The first such reaffirmation filing is due by March 1, 2013.

(iv) **No-Action Relief for CPOs of Funds-of-Funds.** Even if a fund does not invest directly in commodity interests, because, for example, it is a fund-of-funds, the CFTC views its manager as a CPO if it has indirect exposure to commodity interests through the other funds (including ETFs) in which it invests. Investing even a small portion of a fund's assets in a single underlying fund that trades commodity interests is sufficient to render the investing fund's manager a CPO. Such a manager must either comply with the trading limits of Rule 4.13(a)(3) or register as a CPO.

Given the lack of transparency of ETFs and other underlying funds about their investments and notional exposures, managers of hedge funds that invest in those funds may not be able to ascertain whether they are within the Rule 4.13(a)(3) limits. In 2003, the CFTC issued Appendix A to Part 4 of the CFTC Rules to assist funds-of-funds in applying the Rule 4.13(a)(3) trading limits to their portfolios. Appendix A described six circumstances in which a fund-of-funds would be deemed to comply with the Rule 4.13(a)(3) trading limits without using the five percent and 100 percent tests, based on various factors, such as percentage of its capital invested directly in commodity interests, the percentage invested in other commodity pools, and the CPO registration or exemption status of the operators of those pools.

Effective December 31, 2012, however, the CFTC revoked Appendix A, leaving a vacuum for fund-of-funds managers seeking to comply with Rule 4.13(a)(3). The CFTC has stated that it intends to issue new guidance to replace Appendix A and that CPOs may continue to rely on Appendix A until then. Accordingly, the CFTC has issued a no-action letter providing that it will not take enforcement action against a manager of a fund-of-funds for failing to register as a CPO, if the manager meets the following requirements:

> (1) The fund's direct exposure to commodity interests does not exceed the limits of Rule 4.13(a)(3);
>
> (2) The CPO does not know and could not reasonably know that the fund's indirect exposure to commodity interests through other funds exceeds the limits of Rule 4.13(a)(3), calculated either directly or in accordance with the guidance in Appendix A; and
>
> (3) The fund complies with the other requirements of Rule 4.13(a)(3).

A CPO desiring to rely on this no-action relief should have filed a claim with the CFTC before December 31, 2012. If you believe that your firm may be entitled to rely on this relief but it did not file a claim, please contact us immediately.

(v) **Rule 4.7 Relief for Registered CPOs.** Some of the compliance obligations applicable to a registered CPO are discussed on pages 16 and 17 below. A registered CPO may avoid some of these requirements, including the NFA offering document review, for any fund that complies with CFTC Rule 4.7. The Rule 4.7 relief is available for funds that are offered only to "qualified eligible participants," which include "qualified purchasers" under ICA section 3(c)(7), non-U.S. persons, knowledgeable employees, and accredited investors that satisfy specified portfolio thresholds. CPOs of funds that previously qualified for the Rule 4.13(a)(4) exemption may be able to claim the Rule 4.7 relief if they are required to register as CPOs. (Certain entities that are accredited investors, however, previously satisfied the eligibility requirements of the Rule 4.13(a)(4) exemption but are not "qualified eligible participants" under Rule 4.7.) The Rule 4.7 relief is claimed by filing a notice with the NFA.

(vi) **Effect of Rule Changes on CTAs**. In addition to serving as CPOs, investment advisers to funds that invest in commodity interests or certain swaps are the CTAs of those funds. Advisers to separately managed accounts that invest in commodity interests are also CTAs. CTAs are required to register with the CFTC, unless they qualify for an exemption from CTA registration. Most CPOs that previously relied on the rule 4.13(a)(4) exemption from CPO registration previously also could rely on the exemption from CTA registration in Rule 4.14(a)(8), which was also rescinded on December 31, 2012.

Many CTAs, however, are eligible for other exemptions from registration that have not been rescinded. These include exemptions available to a CTA that (1) has furnished investment advice about commodity interests to no more than fifteen clients (a fund counts as a single client) in the preceding twelve months and that does not hold itself out to the public as a CTA; (2) is registered as an investment adviser with the SEC, whose business does not consist primarily of

acting as a CTA, and that does not act as a CTA to any fund engaged primarily in trading commodity interests; (3) is registered as a CPO and its commodity trading advice is directed solely to, and for the sole use of, the pool or pools for which it is so registered; and (4) is exempt from registration as a CPO and its commodity trading advice is directed solely to, and for the sole use of, the pool or pools for which it is so exempt. A CTA that relies on the exemption in clause (3) or (4) above must file a claim of exemption with the NFA when it begins relying on the exemption, and reaffirm the claim annually within sixty days after the end of each year.

A CTA must take many swaps, in addition to its commodity interests, into account in determining whether it is eligible for any exemption from CTA registration that limits the number of accounts it may manage without registration or the extent of its trading in commodity interests. Therefore, after January 1, 2013, a CTA that invests in swaps may be less able to qualify for the exemptions in clauses (1) and (2) above.

(c) **New "Qualified Client" Net Worth Standard for Performance Fee Rule**. Effective May 22, 2012, the SEC amended the "qualified client" definition in the performance fee rule, Rule 205-3 under the Advisers Act. The Advisers Act prohibits an investment adviser from entering into an advisory contract that charges performance-based compensation except in compliance with this rule, which permits an adviser to charge performance-based compensation to "qualified clients." One category of qualified client is a natural person whose individual net worth, or joint net worth with his or her spouse, is greater than $2,000,000 at the time he or she enters into the advisory contract. When calculating net worth, a potential investor must now:

(i) Exclude the value of his or her primary residence;

(ii) Exclude debt secured by the residence, up to the fair market value of the residence at the time he or she enters into the contract (except as noted below);

(iii) Include debt secured by the residence that exceeds the fair market value of the residence; and

(iv) Include the amount of any increase in debt secured by the residence (other than debt incurred to buy the residence) within sixty days before he or she enters into the contract.

The increased net worth requirement does not apply to an investor who entered into an advisory contract before the increase became effective and satisfied the performance fee rule requirements then in effect. If another party joins that contract or if a party to that contract enters into a new advisory contract, the new conditions will apply to such new party or new contract. Therefore, an investor that was a qualified client when he or she invested in a private fund or separately managed account will continue to be treated as a qualified client with respect to additional capital he or she invests in that fund or account after the increase became effective. The investor must, however, satisfy the definition in the amended performance fee rule to invest in a different fund or account that charges performance-based fees.

A person who acquires an interest in a private fund by gift or bequest or pursuant to an agreement related to a legal separation or divorce may be charged performance-based fees even if he or she is not a qualified client under the performance fee rule.

The performance fee rule does not apply to a fund that relies on ICA section 3(c)(7).

If you have not done so already, you should promptly contact us to revise your offering documents to reflect the new net worth requirements.

(d) **Electronic Schedules K-1.** The IRS permits a partnership (and a limited liability company taxed as a partnership) to issue a Schedule K-1 to a partner solely by electronic means if the partnership has received the partner's affirmative consent. The consent must be obtained in a manner that demonstrates that the partner can access the electronic format in which the K-1 is furnished. For example, a partnership can e-mail a consent form to its partners in whatever electronic format it intends to send the K-1s and ask the partners to sign and return their consents electronically. Alternatively, a partnership may send a paper letter to its partners attaching the consent with instructions to send it back using the electronic means that the partnership intends to use, or the partnership may post the consent on its website with instructions to respond electronically. A state may have different rules regarding electronic K-1s and thus the partnership may still be required to send state K-1s on paper.

A partnership also must provide each partner with a statement with specific disclosures, including the procedures for withdrawing the consent, a description of the hardware and software necessary to access the electronic K-1s and how long the consent is effective. You should consult us or your accountants if you want to send K-1s to your partners electronically.

(e) **Amendments to Form D**. If you manage a hedge fund, you likely are required to file a notice on Form D of the offering of interests in the fund under the 1933 Act in reliance on an exemption under Regulation D. Form D is filed electronically with the SEC and on paper in the states where the fund sells interests to U.S. persons. We can prepare Form D for your signature and file it on your behalf. Forms D filed with the SEC must 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 the codes and filing the required amendment.

(f) **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.

(g) **New Issues**. You may rely on representations of investors in their questionnaires regarding their ability to participate in profits and losses from "new issues" for twelve months. 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.

(h) **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.

(i) **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.

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

(k) **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 the fund for purposes of the 100-invester limit in section 3(c)(1). The SEC rules for counting investors for this purpose are complex and technical.

(l) **Form SLT**. Department of the Treasury Form SLT gathers monthly information about long-term foreign securities held by certain U.S. residents and long-term U.S. securities held by foreign residents, including private investment funds and their managers. "Long-term" means having an original maturity of more than one year or no contractual maturity. Only entities file Form SLT. Natural persons do not file.

An investment adviser may be required to file Form SLT if it is the general partner or investment adviser of a private investment fund and has assets under management of at least $1,000,000,000. An investment adviser that manages less than $1,000,000,000 or that manages only separate accounts is not required to file. Form SLT reportable securities typically include: (i) interests in U.S. master funds held by foreign feeder funds; (ii) interests in foreign master funds held by U.S. feeder funds; (iii) interests held by third-party foreign investors in a U.S. fund of which the investment adviser is the general partner; and (iv) portfolio securities held by U.S. funds that are issued by foreign issuers and are not held by a U.S. custodian. An investment adviser must file a consolidated report for all U.S. entities in its organization and all U.S. funds that it manages if the aggregate fair value of Form SLT reportable securities in all such accounts is $1,000,000,000 or more.

If an entity's Form SLT reportable securities on the last business day of any month exceed the $1,000,000,000 threshold, it must begin filing Form SLT as of that month and must continue to file for each subsequent month in the same calendar year, whether or not it continues to meet the reporting threshold. The Form SLT for any month is due on the twenty-third of the next month or the first business day thereafter if the twenty-third is a weekend or holiday.

7. 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 2012. Your compliance procedures also should (and probably do) require that they be reviewed annually (see item 8 on page 3 above).

8. 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.

9. Section 13 and 16 Filings. The following filing requirements apply to an investment adviser whether or not it is SEC-registered.

(a) **Schedule 13D/13G**. If you have or share investment discretion or voting power over five percent or more of a class of equity 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 equity securities, you should contact us. If you have filed a Schedule 13G and the information in it changed as of December 31, 2012, you may be required to file an amended Schedule 13G by February 14, 2013.

(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. Form 3 must be filed by a ten-percent owner within ten days after exceeding the ten percent threshold and by a director or officer within ten days after assuming that office. Thereafter, 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**. If your firm exercises investment discretion over $100,000,000 or more invested in "13(f) securities," it must report its holdings to 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 typically include stocks, certain options, warrants, convertible debt securities and exchange-traded funds that are traded on a national securities exchange. The SEC's official list of 13(f) securities is posted on its website at www.sec.gov/divisions/investment/13flists.htm.

(d) **Form 13H**. If your firm directly or indirectly, including through entities that it controls, purchases or sells, through one or more registered brokers, any NMS security on behalf of any discretionary accounts in an aggregate amount of at least 2,000,000 shares or $20,000,000 during any day or 20,000,000 shares or $200,000,000 during any calendar month, you must file Form 13H with the SEC within ten days after crossing that threshold. On filing, your firm will receive from the SEC a "large trader identification number," or "LTID," which it must provide to each of the brokers with which it has an account. Those brokers must record trading information associated with this LTID and disclose it to the SEC on request. Your firm must amend Form 13H promptly after the end of any calendar quarter during which information in its last filed Form 13H becomes inaccurate and annually not later than February 14 of the following year. Please contact us immediately if you believe that you might be required to file Form 13H or you would like our assistance in filing the required annual amendment.

10. Covenants in Swap, Securities Lending and Margin Lending Agreements. Most swap, securities lending and margin lending agreements (some of which may be in 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.

11. Commodities and Futures Trading. If your firm is registered as a CPO or CTA, it must comply with the following requirements:

(a) **Requirements Applicable to Both CPOs and CTAs**

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

(ii) **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.

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

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

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

(3) file any new exemption notices electronically with the NFA.

(b) **Additional Requirements Applicable to CPOs**

(i) **New Reporting Requirements.** Your firm must begin filing Form CPO-PQR with the NFA, which includes various identifying and operating data of the CPO and is similar to SEC Form PF. A CPO that is also registered with the SEC as an investment adviser and files SEC Form PF, however, does not need to complete the items on Form CPO-PQR that request the same information that it reports on its Form PF.

A registered CPO with assets under management ("AUM") of $1,500,000,000 or more must file Form CPO-PQR quarterly within sixty days after the end of each calendar quarter. A registered CPO with AUM under $1,500,000,000 must file Form CPO-PQR annually within ninety days after the end of each calendar year.

The first Form CPO-PQR filing was due November 29, 2012, for any CPO with AUM of $5,000,000,000 or more. A CPO with AUM between $1,500,000,000 and $5,000,000,000 must file by March 1, 2013, and a CPO with AUM under $1,500,000,000 must file by April 1, 2013.

The method of calculating AUM for purposes of filing Form CPO-PQR is different from the method of calculating RAUM for SEC purposes. If you have questions about calculating AUM and RAUM, please contact us.

(ii) **File and Distribute Commodity Pool Reports**. For each pool that your firm manages, you must furnish each investor with monthly or quarterly account statements containing certain specified financial information. In addition, you must prepare an annual report for each pool and furnish it to each investor in the pool, and the NFA, within ninety days after the end of the pool's fiscal year. In addition, your firm's disclosure document must be updated regularly as required by CFTC rules and may need to be filed with the CFTC and the NFA, and you may need to file other periodic reports with the NFA. Please call us if you would like to discuss these requirements.

(iii) **Liquidated Pools.** Your firm must update its CPO Questionnaire on the NFA's website for any pools that have liquidated.

(c) **Additional Requirements Applicable to CTAs**

(i) **New Reporting Requirements.** You must file reports on Form CTA-PR with the NFA annually within forty-five days from the end of each year. The first Form CTA-PR is due February 14, 2013. A CTA that is dually registered with the SEC and is required to file Form PF, however, must file Form PF in lieu of filing Form CTA-PR with respect to private funds.

(ii) **Annual Verification by FCM.** At least annually, the FCM that carries your firm's client accounts will contact your clients to verify that the information your firm obtained under NFA Compliance Rule 2-30(c) remains materially accurate, and provide

each client the opportunity to correct and complete the information. If the FCM notifies you of any material changes to the information, you must assess whether your firm must provide additional risk disclosure to the client.

(iii) **Disclosure Document.** If your firm is soliciting new clients, it must distribute a Disclosure Document that is no more than nine months old and that has been accepted by NFA.

(iv) **Analyze Trade Allocation.** If your firm places bunched orders, you should analyze each trading program at least quarterly to ensure that the order allocation method is fair and equitable and document this analysis.

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

SHARTSIS FRIESE LLP

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			0.00
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	