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***VIA EMAIL***

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 90 days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2014, the deadline is March 31, 2015. 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," and indicate that the amendment is for 2014. 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. Information about funding your firm's IARD account is at http://www.iard.com/accounting.asp.

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. For an adviser whose fiscal year ended December 31, 2014, the deadline is April 30, 2015. 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 private funds, the Part 2 delivery obligation applies to the funds and not to investors in the funds. 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. To reduce the likelihood of possible claims under the anti-fraud provisions of federal and state securities laws, however, a private fund adviser should consider furnishing Part 2 to each fund investor.

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 June 30, 2015. In that case, unless it qualifies for an exemption from state registration, it should file an application for state registration as soon as possible to ensure that it is registered by June 30.

5. **Switching to the SEC 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 a similar registration exemption that is discussed on page 5).

Exempt reporting advisers are required to file Part 1A of Form ADV on the IARD and disclose 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 pages 3 and 4. 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 also be required to register as an exempt reporting adviser or investment adviser in each state where it has an office.

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 2015 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 Investment Advisers Act of 1940, as amended (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 client trades.

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

## Exempt Reporting Advisers

1. **Annual Updating Amendment to Form ADV**. If your firm is an exempt reporting adviser, it must amend its Form ADV each year on the IARD by filing an annual updating amendment within 90 days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2014, the deadline is March 31, 2015. 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. The IARD fee for an annual

updating amendment by an SEC exempt reporting adviser is $150. The IARD fee for an annual updating amendment by a state exempt reporting adviser is waived for 2015.

2. **Other Amendments**. In addition to the annual updating amendment, an exempt reporting adviser must amend its 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.

3. **Switching to SEC Registration**. 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 90 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 90-day transition period is not available. 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.

**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 90 days after the end of its fiscal year. For an adviser whose fiscal year ended December 31, 2014, the deadline is March 31, 2015. 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" and indicate that the amendment is for 2014. 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 2015 renewals, the IARD has waived its annual $100 system processing fee for investment advisers and reduced its $45 system processing fee for investment adviser representatives to $10.

2. **California Annual Fees**. A California-registered adviser must pay a $125 annual fee before December 15 of each year. This fee differs from the IARD fees mentioned in Item 1 above and has not been waived. You should have received an electronic package from FINRA in late 2014 with instructions on the procedures for paying this fee through the IARD system. If you did not receive that package or otherwise did not pay the annual fee for 2015, 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.

3. **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.

4. **Part 2 Client Delivery Requirements**. The California Commissioner of Corporations (the "Commissioner") encourages all California-registered advisers to deliver Part 2 to clients on the same schedule that applies to SEC-registered advisers, which is summarized in item 3 on page 2.

5. **Switching to SEC Registration**. If your firm's RAUM is $100,000,000 or more, you should contact us to discuss whether you must register with the SEC as an investment adviser.

6. **Switching to the California 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. An adviser that registers with the SEC may not rely on the California private fund adviser exemption. 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 Commissioner 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.

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 Advisers Act performance fee rule.

7. **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 30 days after his or her termination.

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 6 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. These financial statements must be audited unless during the period covered by the report, the adviser 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 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 90 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. **Custody.** In 2014 California adopted a new custody rule. Under the new rule, a California-registered adviser that holds, directly or indirectly, client assets or has the authority to obtain them must:

(a) Indicate that it has custody of client assets in its Form ADV;

(b) Maintain such assets with a "qualified custodian" in a separate account for each client;

(c) If advising a private fund:

(1) Send a statement to every investor at least quarterly that shows (i) the total amount of all additions to and withdrawals from the fund, (ii) the opening and closing

value of the fund for the reporting period, (iii) a list of all of the fund's securities positions on the closing date of the reporting period that are required to be disclosed under GAAP for non-registered investment partnerships, and (iv) a list of all redemptions and withdrawals by the investor and the value of the investor's interest in the fund; and

(2) Either (i) have the Fund's financial statements audited annually by a certified public accountant registered with and subject to regular inspection by the PCAOB and distribute the audited financials to investors within 120 days after the fund's fiscal year end or (ii) enter into an agreement with an independent third party that must act in investors' best interest, which agreement authorizes the independent third party to review, verify and approve invoices and receipts for all fees, expenses and withdrawals.

(d) Additionally, an adviser that advises non-fund clients or uses the independent third party procedure for a fund instead of the annual audit exemption must:

(1) Notify clients of the identity and location of the qualified custodian of the clients' assets;

(2) Have a reasonable basis after due inquiry for believing the clients receive account statements at least quarterly directly from the qualified custodian that (i) identify the amount of assets in the account at the end of the reporting period, and (ii) list all transactions in the account; and

(3) Retain a certified public accountant to conduct a surprise examination of client assets at least once each year at a time chosen by the accountant. An adviser that has custody only because of its authority to deduct its fees from client accounts is not subject to this requirement if the adviser has written authorization to deduct its fee, sends invoices for the amount of the fee to its custodian and the client, and notifies the Commissioner that it will rely on this exception to the Rule.

10. **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.

**California Investment Advisers Not Registered in California or with the SEC**

If your firm has an office in California and it is not (1) registered as an investment adviser with either the SEC or California, (2) relying on the SEC's exempt reporting adviser exemption discussed on page 2 or (3) relying on the California private fund adviser exemption discussed on page 5, you should contact us immediately. If your firm is relying on these 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 90 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 90-day transition period is

not available. In that case, unless your firm qualifies for another exemption, its registration application must be approved by the SEC before its RAUM reaches $150,000,000.

If your firm is relying on the California private fund adviser exemption and its RAUM increases to over $25,000,000, it must file its SEC exempt reporting adviser notice within 60 days thereafter. Please contact us immediately if you believe you may need to make this filing.

**Investment Advisers Not Registered with the SEC that Have Clients or Offices in Other States**

If you are not registered with the SEC and have one or more clients or offices in any state other than California, you may be required to register in that state. If your firm's RAUM is $25,000,000 or more, please 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 discussed on page 2. An investment adviser relying on the SEC's exempt reporting adviser exemption must file its initial Form ADV within 60 days after first relying on that exemption.

**Other Issues**

1. **Website Terms of Use -- Legal Developments.** A recent decision by the Federal Ninth Circuit Court of Appeals, which covers 9 Western states, including California, suggests that a business cannot enforce its website's Terms of Use against users unless the business can show that the users actually saw the terms of use. If you have a website that disseminates material information to clients and investors or that supports client or investor transactions, we recommend that the site require users to agree to that website's Terms of Use through an "I agree" button. Please call us if you would like to discuss this matter.

2. **SEC and CFTC Identity Theft Regulations**. Identity theft rules and guidelines of the Commodity Futures Trading Commission (the "CFTC") and the SEC require certain entities they regulate to implement a red-flags program designed to detect, prevent and mitigate identity theft. If your firm has not adopted identity theft policies and procedures that comply with these guidelines, please contact us. Advisers that are not regulated by the CFTC or the SEC are subject to similar Federal Trade Commission rules, but those rules lack clear compliance guidelines. Such advisers should consider adopting identity theft policies and procedures that follow the SEC and CFTC compliance guidelines.

3. **Annual Notice of Privacy Policy**. Investment advisers, whether or not registered with the SEC, and private 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 private 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 private fund collects and the extent to which it discloses that information. 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 12 months. You may define the 12-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 investors reporting last year's results.

4. **San Francisco Gross Receipts Tax**. San Francisco replaced its current payroll expense tax with a gross receipts tax that is being phased in gradually over five years, which began in 2014. For investment advisers and others in the financial services industry, the tax rate is 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% payroll expense tax rate, some investment advisers will see their overall San Francisco tax increase, because their gross receipts will be substantially greater than their payroll expense.

An investment fund is generally treated as not having any gross receipts for purposes of the tax, even if the fund's investment adviser is located in San Francisco. An investment adviser's gross receipts do not include net gain on investment of its own capital. 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 gross receipts tax affects it.

5. **California Department of Business Oversight Electronic Communications Requirement**. If your firm is certificated as an investment adviser in California, has claimed an exemption from such certification (including as an exempt reporting adviser), or is an SEC-registered investment adviser that has made a notice filing in California, you should have registered a designated email address by logging into the California Department of Business Oversight secure portal, found at https://dbolicensee.secureprtportal.com, and entered your designated email information. The designated email address must use a generic address (such as dbo@abcfinance.com or govcompliance@abc.com) that is neither provided to the public for general communication nor an individual's email. The email account must be monitored daily by an adviser's executive staff. An adviser must adjust its email SPAM filters to ensure delivery of all notifications and attachments sent by the domains @dbo.ca.gov and @Service.GovDelivery.com.

6. **Pay-to-Play and Lobbyist Rules.** SEC rules disqualify investment advisers, their key personnel and placement agents acting on their behalf, from seeking engagement by a government client if they have made political contributions that exceed specified thresholds. California requires internal sales professionals who meet the definition of "placement agents" (people who for compensation act as finders, solicitors, marketers, consultants, brokers, or other intermediaries in offering or selling investment advisory services to certain government entities, including a state public retirement or university system) to register with the state as lobbyists, and comply with California lobbyist reporting and regulatory requirements.

Other state and local governments have similar requirements, but they differ widely, so you should call us before your firm begins negotiations with any state or local government entity.

7. **Investment Fund Issues**.

(a) **New Issues**. Generally, you may rely for 12 months on representations made by investors in your funds in their offering questionnaires regarding their eligibility to participate in profits and losses from "new issues." After that, you must obtain a recertification of those representations each year. A convenient way to obtain the recertifications is to send a request in the annual letter that your firm sends to investors. Recertifications can be obtained by negative consent. You should contact us before you prepare to obtain the recertifications so that we can advise you on appropriate documentation.

FINRA Rule 5131 prohibits FINRA members and their associated persons participating in an IPO from allocating shares to any fund in which certain prohibited persons affiliated with the issuer hold (directly or indirectly) at least 25% beneficial interests.

FINRA members and fund advisers have indicated that obtaining the information from fund investors necessary to comply with the rule is difficult. In particular, such firms expressed that they have had difficulty obtaining, tracking and aggregating information from hedge funds regarding their indirect beneficial owners, such as participants in funds of funds that invest in the hedge funds. A FINRA member may treat as unrestricted under FINRA Rule 5131 any private fund investor that is a fund of funds not affiliated with the private fund's investment adviser if the FINRA member obtains a written representation from a person authorized to represent the private fund that such unaffiliated fund of funds:

- is managed by an investment adviser;
- has assets greater than $50,000,000;
- owns less than 25% of the private fund;
- does not have a single investor that owns a beneficial interest of 25% or more; and
- was not formed for the specific purpose of investing in the private fund, so long as the member has no reason to believe that such representation is inaccurate.

(b) **General Solicitation and Advertising in Rule 506 Offerings**. Rule 506(c) permits general solicitation and advertising in private securities offerings. This exemption may be available to private funds, venture capital funds, private equity funds and other privately offered investment funds, but it requires investment advisers to such funds to take reasonable steps to verify that each fund subscriber is an accredited investor, among other things. The SEC has established safe harbors for evaluating a prospective investor's accredited investor status and in 2014 released a Q&A that addresses some questions about calculating income and net worth under the safe harbor rules. The Commodity Futures Trading Commission ("CFTC")

also allows investment advisers exempt from registration as CPOs under CFTC regulations 4.13(c)(3) or 4.7 to engage in general solicitation under rule 506(c) without risking their exemptions if they meet the following conditions:

- The fund must issue interests under rule 506(c);
- The investment adviser must file a notice with the CFTC; and
- The adviser must represent that it meets all other requirements of the CFTC exemption on which it is relying.

An adviser relying on the CFTC rule 4.13(a)(3) exemption should take special note of the third requirement. Even under the relief granted by the CFTC, the adviser may not market fund interests "as or in a vehicle for trading in the commodity futures or commodity options markets." If you would like to learn more about rule 506(c) and the corresponding CFTC exemption, please contact us.

(c) **"Bad Actor" Disqualification**. Rule 506 disqualifies any issuer from relying on Regulation D in any securities offering in which certain persons participating in such offering had certain "disqualifying events," that is, certain criminal convictions and regulatory violations.

An investment adviser must determine whether it is subject to the bad actor disqualification rule each time it offers or sells securities in reliance on rule 506. The SEC has stated that an issuer may reasonably rely on the agreement of a person covered by the bad actor rule to provide notice of a potential or actual disqualifying event in, for example, a contract or undertaking in a questionnaire or certification. If an offering is continuous, delayed or long lived, however, the issuer must update its inquiry periodically.

An adviser to a fund relying on any provision of rule 506 should require each of its employees and certain other persons participating in the offering of fund interests to provide written representations that he or she has not been subject to any disqualifying events and conduct other appropriate due diligence at least annually. For this purpose, an investor holding at least 20% of an investment fund's voting securities may be deemed to be participating in that fund's offering. If you have not contacted us to revise your firm's employee questionnaire and fund subscription documents and taken other steps to comply with these amendments, please contact us as soon as possible.

(d) **European Union Alternative Investment Fund Managers Directive ("AIFMD")**. AIFMD is a European Union ("EU") directive that attempts to harmonize regulation of marketing and management of investment funds across the EU. The first AIFMD requirements became effective in 2013, and the rest are being phased in through September 2018. If your firm manages a fund that has EU investors, is marketing in the EU or accepts or would accept EU investors even if it is not marketing there, your firm is subject to AIFMD, and if you have not done so already, you should contact us to discuss how it will affect your firm and any funds that it manages.

In particular, a fund manager subject to AIFMD that has assets under management of at least €100,000,000 now must file new Annex IV in each EU Member State where the manager markets alternative investment funds. The first Annex IV reports are due January 30, 2015. If you would like more information, please contact us.

**Foreign Account Tax Compliance Act ("FATCA").** Under FATCA, an offshore fund, including an offshore master fund, must appoint a FATCA responsible officer, gather and review information about the fund's investors to ascertain whether it has direct or indirect U.S. investors, and report investor information to either the IRS or the country in which it is organized. A U.S. fund with offshore investors must obtain information from those investors identifying direct and indirect U.S. account holders.

The Cayman Islands and British Virgin Islands have entered into intergovernmental agreements ("IGAs") with the U.S. generally providing that a government office in those countries will collect the FATCA-required information and send it to the IRS. The Cayman Islands has passed legislation implementing its IGA and corresponding regulations regarding a fund's obligations under that legislation, but many other jurisdictions, such as the British Virgin Islands have not passed implementing legislation. Until a jurisdiction passes implementing legislation enacting its IGA, it may be unclear what information investors must provide in that jurisdiction, how it will be collected and to which government agency it must be directed.

The United Kingdom and its Overseas and Crown Dependences, including the Cayman Islands and British Virgin Islands, have entered into intergovernmental agreements ("UK IGAs") implementing an automatic exchange of information for tax purposes. These UK IGAs are similar to FATCA in that they require funds domiciled in those jurisdictions to undertake due diligence and annual reporting on specified UK persons, but no withholding taxes are assessed in the event of non-compliance. Funds organized in these jurisdictions should be gathering investor due diligence to satisfy the additional reporting requirements added by the legislation implementing the UK IGAs.

If you have not done so already, you should consult your administrators, accountants and us as soon as possible about how FATCA and similar legislation might affect any funds that your firm manages. Some funds' governing documents may need to be amended to comply with FATCA and such legislation, and most fund's offering documents should be updated to reflect the new documentation requirements.

(e) **Issues Affecting Managers of Funds that Trade Commodity Interests and Swaps**. A discussion of requirements applicable to registered CPOs and CTAs is on pages 18 and 19. The following issues are applicable to advisers that may not be so registered but that trade commodity interests and swaps for the funds that they manage.

(1) **CFTC Announces New Approach for Delegation by Commodity Pool Operators.** In 2014, the CFTC announced a standardized, streamlined approach for no-action requests relating to delegation of CPO activities by an unregistered CPO to a registered CPO. Delegation typically arises when the general partner of an investment fund organized as a partnership appoints a separate affiliated investment adviser and designates the investment adviser as the fund's CPO, or the directors of a fund organized as a corporation

designate the fund's investment adviser as its CPO. The CFTC will provide no-action relief from the CPO registration requirements in CEA section 4m(1) to a delegating CPO that requests relief if the delegating CPO and the designated CPO meet certain requirements. The new relief is relevant only to advisers that manage investment funds whose CPOs do not qualify for an exemption from CPO registration. It does not apply to a CPO that has claimed the exemption from registration under rule 4.13(a)(3) of the Commodity Exchange Act (the "CEA"). Please call us if you would like to discuss requesting relief under this streamlined approach.

(2) **Swaps**. The definitions of "commodity pool operator" and "commodity trading adviser" include advisers that invest in swaps. An investment adviser of accounts that invest in swaps is a CPO or CTA, or both, even if it does not invest in commodity interests. Therefore, all advisers must determine whether the instruments in which they invest include swaps. The definition of "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 treated as swaps. 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.

(3) **Advisers that Rely on Rule 4.13(a)(3) CPO Registration Exemption**. The exemption from CPO registration under CFTC Rule 4.13(a)(3), which is widely used by CPOs of private funds, is available to managers of funds whose investments in commodity interests are very limited. A fund may qualify for it if either (i) the aggregate initial margin and premiums required to establish the fund's positions in commodity interests do not exceed 5% (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 (ii) 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.

A CPO relying on the 4.13(a)(3) exemption must reaffirm each claim of exemption annually within 60 days after the end of each year. The 2015 reaffirmation filing is due by March 2, 2015. In December 2014, the NFA sent an email reminder of the reaffirmation requirement.

(4) **CTAs**. In addition to serving as a CPO, an investment adviser to a fund that invests in commodity interests or certain swaps is the CTA of that fund. An adviser to a separately managed account that invests in commodity interests is also a CTA. A CTA is required to register with the CFTC, unless it qualifies for an exemption. One such exemption, in CFTC Rule 4.14(a)(8), is available to a CTA whose commodity interest trading advice is solely incidental to its business of providing securities investment advice, and that provides commodity investment trading advise only to pools, each of whose CPOs is either registered or relying on the Rule 4.13(a)(3) exemption. The 4.14(a)(8) CTA exemption must be claimed by filing a notice with the NFA, and must be reaffirmed annually within 60 days after the end of each year. Most CTAs are eligible for this exemption, but a CTA that invests in swaps may be unable to qualify.

(f) **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. State rules may differ regarding electronic K-1s and 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.

(g) **Amendments to Form D**. If you manage a private fund, you likely are required to file a notice on Form D of the offering of interests in the fund in reliance on an exemption in Regulation D under the 1933 Act. 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.

(h) **Blue Sky**. Before offering or selling any interests in a private 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.

(i) **Updating Offering Documents**. If you manage a private 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.

(j) **Designation of Liquidating Person**. If you manage a private 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.

(k) **Investors that Are Mutual Funds**. If a registered investment company (a "mutual fund") is an investor in a private fund that you manage, the mutual fund may be an

"affiliate" of the fund if it owns 5% or more of the fund. Please contact us to discuss this issue if you believe it may be relevant to you.

(l) **3(c)(1) Count**. If any domestic or offshore private fund that you manage relies on the exception from the definition of "investment company" in ICA section 3(c)(1), you should consider consulting with us regarding the number of investors in the 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.

(m) **Form PF**. An investment adviser must file Form PF if its RAUM attributable to private funds is $150,000,000 or more as of any December 31 and it is registered (or required to be registered) either with the SEC as an investment adviser or with the CFTC as a CPO or 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 who have not already filed Form PF are required to file Form PF annually. For advisers whose fiscal year ends December 31, the 2015 filing deadline is April 30. If an adviser's RAUM is at least $1,500,000,000 as of the end of any month, however, it must file a Form PF within 60 days after the end of the fiscal quarter in which it exceeded that threshold and thereafter must file an updated Form PF within 60 days after the end of each fiscal quarter. Some service providers offer products and services intended to facilitate preparing and filing Form PF. Please call us if you would like to discuss Form PF.

(n) **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: (1) interests in U.S. master funds held by foreign feeder funds; (2) interests in foreign master funds held by U.S. feeder funds; (3) interests held by third-party foreign investors in a U.S. fund of which the investment adviser is the general partner; and (4) 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 23rd of the next month or the first business day thereafter if the 23rd is a weekend or holiday.

8. **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 5% 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, 2014, you may be required to file an amended Schedule 13G by February 17, 2015.

(b) **Forms 3, 4 and 5**. If you have or share investment discretion or voting power over more than 10% 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 10% owner within 10 days after exceeding the 10% threshold and by a director or officer within 10 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 2 business days after the date of the change. An annual report on Form 5 must be filed with the SEC within 45 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 45 days after the end of the first calendar year in which it 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 at http://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 10 days after crossing that threshold. NMS securities are typically exchange-listed equities, ETFs and options.

When your firm files Form 13H, it 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 within 10 days after the end of any calendar quarter during which information in its last filed Form 13H becomes inaccurate and, whether or not there have been any changes in the information in its Form 13H, 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.

9. **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.

10. **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 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 2014. Your compliance procedures also should require that they be reviewed annually (see item 8 on page 3).

11. **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.

12. **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.

13. **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 2014 generally must file Form TD F 90-22.1 if the aggregate value of all such accounts exceeded $10,000 at any time during 2014. The Form must be received by the Department of Treasury by June 30, 2015. 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.

14. **ERISA Fee Disclosures**. If your firm manages an ERISA plan account or an ERISA plan assets fund and either the compensation you receive from the plan or from other parties, or the services you provide to the plan or fund have changed, you must disclose those changes to the plan fiduciary. Please contact us if you would like our help in drafting those disclosures.

15. **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 Registered CPOs and CTAs**

(1) **Update NFA Registration**. Annually, 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. The NFA should send an email reminder of such update.

(2) **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.

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

- test your disaster recovery plan and make any necessary adjustments;
- provide ethics training in accordance with the NFA's rules; and
- file any new exemption notices electronically with the NFA.

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

(1) **Reporting Requirements**. Your firm must file CFTC Form CPO-PQR and NFA Form PQR with the NFA. These forms include various identifying and operating data of the CPO. The two forms overlap considerably, and in many cases filing one will be deemed to satisfy the obligation to file the other. CFTC Form CPO-PQR and NFA Form PQR are similar to SEC Form PF. A CPO that is also registered with the SEC as an investment adviser and files SEC Form PF does not need to complete the items on Form CPO-PQR that request the same information that it reports on its Form PF.

Filings must be made quarterly or annually, depending on the firm's assets under management ("AUM"). The method of calculating AUM for purposes of filing Form CPO-PQR differs from the method of calculating RAUM for SEC purposes. Please contact us to discuss the filings and filing dates that apply to your firm or if you have questions about calculating AUM and RAUM.

(2) **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 90 days after the end of the pool's fiscal year. Each pool's disclosure document should be updated

regularly and may need to comply with specific CFTC disclosure rules; it may also need to be filed with the CFTC and the NFA. Please call us if you would like to discuss these requirements.

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

(1) **Reporting Requirements**. You must file a report on Form CTA-PR with the NFA annually within 45 days after the end of each year. You must also file NFA Form PR quarterly within 45 days after the end of the quarters ending in March, June and September. Form PR is very similar to Form CTA-PR but contains additional information. A CTA that is also registered with the SEC as an investment adviser and is required to file Form PF must file Form PF in lieu of filing Form CTA-PR with respect to private funds.

(2) **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.

(3) **Disclosure Document**. If your firm is soliciting new clients, you must distribute a disclosure document that complies with specific CFTC rules and filing requirements, unless you have made a filing claiming relief from certain of those obligations. Please call us if you would like to discuss CTA disclosure requirements.

(4) **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 John Broadhurst, Geoff Haynes, Chris Rupright, Carolyn Reiser, Neil Koren, Jim Frolik, Christina Hamilton, Joan Grant, Lyn Roberts, Anthony Caldwell, David Suozzi or Kathryn Miller.

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 –DEPARTMENT OF BUSINESS OVERSIGHT

# MINIMUM FINANCIAL REQUIREMENTS WORKSHEET

DBO - 260.237.2 (Rev. 7-13)

**STATE OF CALIFORNIA**
**BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY**
**Department of Business Oversight**

**CRD NUMBER:** ____________________

**APPLICANT'S NAME:** ____________________

**COMPUTATIONS AS OF:** _____/_____/_____

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

**SUMMARY:**

| | | | |
|---|---|---|---|
| NET WORTH | From (b) below | A | |
| MINIMUM NET WORTH REQUIRED | [Per Section 260.237.2(a)(b) CCR] | B | |
| 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 | |
| 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* | | | |
| *DEFERRED CHARGES* | | | |
| *GOODWILL* | | | |
| *FRANCHISE RIGHTS* | | | |
| *ORGANIZATIONAL EXPENSES* | | | |
| *PATENTS* | | | |
| *COPYRIGHTS* | | | |
| *MARKETING RIGHTS* | | | |
| *UNAMORTIZED DEBT DISCOUNT AND EXPENSE* | | | |
| *ALL OTHER ASSETS OF INTANGIBLE NATURE* | | | |
| *HOME, HOME FURNISHINGS, AUTOMOBILES AND OTHER* | | | |
| *PERSONAL ITEMS NOT READILY MARKETABLE (INDIVIDUAL)* | | | |
| *ADVANCES OR LOANS TO STOCKHOLDERS AND OFFICERS* | | | |
| *ADVANCES OR LOANS TO PARTNERS (PARTNERSHIP)* | | | |
| TOTAL EXCLUDED ASSETS | (Transfer to a above) | c | |

**120% TEST** [Per Section 260.241.2(d)]

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