SHARTSIS FRIESE LLP
One Maritime Plaza ♦ Eighteenth Floor
San Francisco, California 94111-3598

January 20, 2012

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 days or weeks.

New Investment Adviser Registration Rules

As discussed in our previous letter to clients and friends, the Securities and Exchange Commission (the "SEC") has adopted new investment adviser registration requirements under the Investment Advisers Act of 1940 (the "Advisers Act") as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As discussed in our letter sent together with this letter, the California Commissioner of Corporations has also proposed to amend the exemption from California investment adviser registration available to advisers that advise only Private Funds (defined in Item 2 below).

1. Becoming Registered or Switching Registration. These regulatory changes will require many of our clients that are currently not registered as investment advisers with any regulatory authority to register in 2012. They also will require some of our clients that are SEC-registered to switch to state registration and vice versa. If your firm is unregistered and you are required to register in California, the registration deadline may be as early as March 30, 2012, in which case, you should begin the filing process immediately. If your firm is required to register with the SEC, you should file Form ADV by February 14, 2012. The entire registration process can take from 60 to 120 days or longer. Therefore, we recommend that you call us as soon as possible to discuss a timeline for the registration process if these requirements apply to your firm.

2. Exemptions. An investment adviser with assets under management ("AUM") of less than $150,000,000 that advises only Private Funds is exempt from SEC registration (an "Exempt Reporting Adviser"). 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 will be required to file reports on Part 1A of Form ADV with the SEC on the IARD, disclosing organizational and operational information, but will not be registered and will not be required to prepare and deliver to investors Part 2 of Form ADV. An Exempt Reporting Adviser must file its first report by March 30, 2012. A registered adviser that is switching to

Exempt Reporting Adviser status must first withdraw its registration by filing Form ADV-W on the IARD system before filing its first Exempt Reporting Adviser report. As previously mentioned, California has proposed an exemption from registration that would be available to advisers to Private Funds, but we do not know whether or when the exemption will be adopted, if ever.

The remainder of this letter discusses the regulatory requirements that currently apply to investment advisers given their registration status now.

Federally Registered Investment Advisers

1. Annual Updating Amendment to Form ADV. If you are an SEC-registered adviser, you must amend your Form ADV each year within ninety days after the end of your fiscal year. This annual amendment must update your responses to all items of Parts 1 and 2 of Form ADV. You must amend Part 1 electronically on the IARD system.

When you amend Part 1, the IARD system will prompt you to indicate the type of amendment. You should select "annual updating amendment." Part 1 has been extensively revised, especially those items that require information about private funds. Advisers to private funds will need extra time to review those items and may need to discuss them with us before filing.

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, 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 AUM is below $25,000,000, (b) $150 if the adviser's AUM is between $25,000,000 and $100,000,000 and (c) $225 if the adviser's AUM is over $100,000,000. 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 provided in response to Item 1, 3, 9 or 11 of Part 1A becomes inaccurate in any way or (b) any information provided in response to Item 4, 8 or 10 (including Schedules A and B) of Part 1A becomes materially inaccurate. Part 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 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 AUM reported on your annual updating amendment is below $100,000,000, you will likely be required to withdraw your SEC investment adviser registration by June 28, 2012. In that case, unless you qualify for an exemption from state registration, you will need to apply for state registration a reasonable time (which can be 120 days or more) before withdrawing your SEC registration. The new SEC and California registration requirements are summarized on pages 1 and 2 above. You should contact us if you believe that any of these requirements may apply to your firm.

5. Switching to an Exemption. If your firm's AUM is less than $150,000,000 and your firm advises only Private Funds, you may be eligible for one of the registration exemptions summarized on pages 1 and 2 above. Please call us to discuss.

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 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 2012 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 its implementation of the code. In addition, an SEC-registered adviser should determine whether it needs to provide any ethics training to its employees or enhancements to its code in light of its current business practices.

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

(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 client accounts.

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

California Investment Advisers Not Registered in California or with the SEC

If your firm has an office in California and relies on exemptions from registration as an investment adviser with both the SEC and California, you should contact us immediately to determine whether you will be required to register with the SEC or the California Commissioner of Corporations under the new rules discussed on pages 1 and 2 above. If your firm is unregistered and you are required to register in California, the registration deadline may be as early as March 30, 2012, in which case you should begin the filing process immediately. If your firm is required to register with the SEC, you should file Form ADV by February 14, 2012.

Investment Advisers Certificated by California Commissioner of Corporations

1. Annual Updating Amendment of Form ADV. If you are a California-registered adviser, you must file with the California Commissioner of Corporations, within ninety days after the end of your fiscal year, an annual updating amendment of your Form ADV. You must update all of Parts 1 and 2. You must amend Part 1 electronically on the IARD system.

When you amend Part 1, the IARD system will prompt you to indicate the type of amendment. You should select "annual updating amendment." Part 1 has been extensively revised, especially those items that require information about private funds. Advisers to private funds will need extra time to review those items and may need to discuss them with us before filing.

Unlike Part 1, Parts 2A and 2B are not online forms. Instead, you must submit them electronically 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 2012 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 also must amend Part 1 of its Form ADV promptly during the year to reflect any change in the information reported (other than financial information) and must promptly amend Part 2 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 follow the distribution schedule of Part 2 applicable to SEC-registered advisers, summarized in item 1 on page 4 above. The Commissioner is currently amending its rules to make the SEC's distribution schedule mandatory for California-registered advisers.

4. Switching to SEC Registration. If your firm's AUM is $100,000,000 or more, you should contact us to discuss whether you will be required to register with the SEC as an investment adviser by March 30, 2012. In that case, the deadline for filing your initial registration application is February 14, 2012. The new registration requirements are summarized on pages 1 and 2 above.

5. Switching to an Exemption. If your firm's AUM is less than $150,000,000 and your firm advises only Private Funds, you may be eligible for one of the exemptions from registration summarized on pages 1 and 2 above. Please call us to discuss.

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 2011 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 2012, 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 respective 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, not other payments or transfers, 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 such state. If your firm's AUM is $100,000,000 or more, you should contact us to discuss whether you will be required to register with the SEC as an investment adviser by March 30, 2012. In that case, the deadline for filing your initial registration application is February 14, 2012. The SEC's new registration requirements are summarized on pages 1 and 2 above.

Other Issues

1. San Francisco Payroll Tax. An investment adviser that has an office in San Francisco is subject to the San Francisco payroll tax, which is 1.5 percent of the San Francisco payroll expense. Taxable payroll expense includes "compensation for services to owners of pass-through entities." The statute is not clear on how to calculate "compensation for services" for such owners, although there is a safe harbor that owners of businesses can use to determine this amount. The San Francisco Payroll Tax Statement for 2011 is due February 29, 2012. If you have an office in San Francisco, you should consult us or your accountant on how to calculate the tax for 2011.

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

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

The annual notice required by the Privacy Regulations must be delivered at least once during each twelve-month period. You may define the twelve-month period, but you must apply it consistently. You may deliver the annual notice conveniently by including it in an individual account client's first quarter bill or in your annual letter to limited partners reporting last year's results.

4. Investment Partnership Issues.

(a) **Changes to Accredited Investor Definition**. Effective February 27, 2012, the SEC has amended the "accredited investor" definition in Regulation D under the Securities Act of 1933. A natural person is an "accredited investor" if his or her individual net worth, or joint net worth with his or her spouse, exceeds $1,000,000. The Dodd-Frank Act mandates that the value of the investor's primary residence be excluded when calculating the investor's net worth for this purpose. The amendment generally will require that, in making such calculation, a natural person must:

- Exclude the value of his or her primary residence,

- Exclude debt secured by the residence, up to the fair market value of the residence at the time of the sale of the securities,

- Include the amount of debt secured by the residence that exceeds the fair market value of the residence, and

- Include the amount of any increase in debt secured by the residence that has occurred within sixty days before his or her purchase of the securities (other than debt incurred to buy the residence).

You should promptly revise your firm's fund offering documents to reflect the new calculation requirements. Please contact us for assistance.

(b) **Changes to the Performance Fee Rule.** The SEC has increased the thresholds for determining whether an investment adviser may charge a performance fee to a client under the Advisers Act. Under the old rule, a performance fee can be charged to a client if, among other things, it had at least $750,000 under management with an adviser or the adviser reasonably believed the client's net worth to be greater than $1,500,000, in either case at the time the client entered into the advisory contract with the investment adviser. The Dodd-Frank Act required the SEC to adjust these thresholds for inflation and to further adjust them every five years going forward. Accordingly, the SEC increased the thresholds to $1,000,000 and $2,000,000, respectively. If you charge performance-based compensation and you have not done so already, you should now revise your firm's fund offering documents and separate account agreements to reflect the increased thresholds. Please contact us to assist in making these revisions. These changes do not apply to 3(c)(7) funds.

The SEC left open whether an investor's additional capital contribution would fall under its existing advisory agreement or be deemed to create a new agreement subject to the new thresholds. The SEC has proposed a grandfathering provision that would clarify this point. Until a grandfathering provision is adopted, however, investment advisers that accept new capital contributions in investment funds via supplemental subscription documents should update such documents to reflect the new $1,000,000 and $2,000,000 thresholds. The SEC has also proposed to exclude the value of an investor's primary residence when determining whether the investor's net worth exceeds $2,000,000, but has not yet adopted this proposal.

(c) **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 securities (interests in the fund) under the Securities Act of 1933 in reliance on an exemption under Regulation D. Form D is filed with the SEC and 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. Form D must be filed electronically and 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. Currently, only Forms D filed with the SEC are filed electronically. Forms D filed with state securities authorities are still filed on paper.

(d) **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.

(e) **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.

In addition to FINRA Rule 5130, which restricts allocations of new issues to certain investors affiliated with brokerage firms and other financial institutions, new FINRA Rule 5131 generally prohibits a broker and its associated persons from selling new issues to any executive officer or director of any of the broker's current, and certain prospective, investment banking clients, to any person materially supported by any such officer or director, and to any account (such as a hedge fund) of which the officers and directors of a single such client or prospective client (and their supported persons) collectively own more than twenty-five percent. If you manage a hedge fund that expects to invest in new issues and you have not done so already, you should contact us immediately to assist you with updating the fund's subscription documents to ensure that you receive appropriate new issue representations with respect to both FINRA new issue Rules.

(f) **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.

(g) **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.

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

(i) **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.

(j) **Form SLT**. The U.S. Department of the Treasury (the "Treasury") recently implemented a new form, Form SLT, to gather 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 ("Form SLT Reportable Securities"). "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 one or more private investment funds 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 at least $1,000,000,000.

The first Form SLT was due October 24, 2011. An adviser that was required to file on that date also must file for the quarter ended December 31, 2011, even if its Form SLT Reportable Securities were then below the threshold. The Form SLT for the quarter ended December 31 is due January 23, 2012.

Going forward, Form SLT must be filed monthly and must include the required information as of the last business day of each calendar month. The Form 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. If an entity's Form SLT Reportable Securities on the last business day of any month exceed the $1,000,000,000 threshold, the entity 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 its Form SLT Reportable Securities continue to meet the reporting threshold. Investment advisers must file Form SLT with the Federal Reserve Bank of New York.

(k) **Form SHC.** The Treasury also recently implemented Form SHC, which is designed to gather information about holdings of certain non-U.S. securities ("Form SHC Reportable Securities"). Form SHC Reportable Securities generally are non-U.S. securities held by U.S. persons. Unlike Form SLT Reportable Securities, Form SHC Reportable Securities include securities held by U.S. custodians and both long- and short-term securities. Your firm must file Form SHC if it is notified by the Federal Reserve Bank of New York that it is required to do so. You also may be required to file Form SHC if your firm and its U.S. investment funds and other U.S. affiliates own Form SHC Reportable Securities having an aggregate market value over $100,000,000. This threshold is much lower than the Form SLT threshold discussed above. Form SHC must be filed with the Federal Reserve Bank of New York by March 2, 2012, with respect to assets held on December 31, 2011. There are significant penalties for failing to file.

Form SHC is part of a survey held every five years to collect data on U.S. investors' holdings of non-U.S. securities. Some Form SHC filers will be required subsequently to file annual reports on Form SHCA.

(l) **Form PF**. Effective March 31, 2012, the SEC and the Commodity Futures Trading Commission (the "CFTC") have 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 SEC and CFTC in monitoring potential systemic risk. 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. An investment adviser must file Form PF if it has at least $150,000,000 of regulatory assets under management 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 or commodity trading adviser.

Most advisers are not required to file an initial Form PF until 2013, but any adviser with at least $5,000,000,000 of regulatory assets under management is required to file an initial Form PF by August 29, 2012. Even though these deadlines seem months away, it will take substantial time and effort to compile the information necessary to prepare Form PF. You should consider how you will compile this information well in advance of your deadline. A number of service providers are developing products intended to facilitate that process. Please call us if you would like to discuss preparing to file Form PF.

5. Compliance Policies. Whether or not your firm is registered with the SEC, we recommend that you discuss with us adopting and annually reviewing a code of ethics and compliance procedures. Among other things, your compliance procedures should (and probably do) require that each employee certify quarterly or annually that he or she has complied with those procedures, and you should now require each employee to submit that certification to your compliance officer for 2011. Your compliance procedures also should (and probably do) require that they be reviewed annually (see item 8 beginning on page 3 above).

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

7. Section 13 and 16 Filings.

(a) **Schedule 13D/13G**. If you have or share investment discretion or voting power over five percent or more of a class of 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, 2011, you may be required to file an amended Schedule 13G by February 14, 2012.

(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 position. 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**. Whether or not you are SEC-registered, if you exercise investment discretion over $100,000,000 or more invested in "13(f) securities" traded on a national securities exchange, you must file a report of your holdings with the SEC on Form 13F within forty-five days after the end of the first calendar year in which you reached the $100,000,000 threshold as of the end of any month, and must make quarterly filings thereafter. 13(f) securities include stocks, certain options, warrants, convertible debt securities and exchange-traded funds. A list of 13(f) securities is posted on the SEC's website at www.sec.gov/divisions/investment/13flists.htm.

(d) **Form 13H**. Whether or not you are SEC-registered, if you directly or indirectly, including through entities that you control, purchase or sell, 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, you will receive from the SEC a "large trader identification number," or "LTID," which you must provide to each of the brokers with which you have an account. Those brokers must record trading information associated with your LTID and disclose it to the SEC on request. You must amend Form 13H promptly after the end of any calendar quarter during which information in your last filed Form 13H becomes inaccurate and annually not later than February 14 of the following year, except that for 2011, there is no fourth-quarter or annual amendment required.

The first Form 13H was due on December 1, 2011. Please contact us immediately if you believe that you might have been required to file, but did not.

8. 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.

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

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

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

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

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

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

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

(iii) file any new exemption notices electronically with the NFA; and

(iv) update your CPO Questionnaire on NFA's website for any pools that have liquidated.

******

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

SHARTSIS FRIESE LLP

Enclosure

TO THE COMMISSIONER OF CORPORATIONS OF
THE STATE OF CALIFORNIA

VERIFICATION FORM PURSUANT TO
RULE 260.241.2(b)

(Executed WITHIN or WITHOUT of the State of California)

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

Executed this _____ day of _____, _____, at

_____ _____
City State

_____
(Signature of person signing report)

_____
(Title of person signing report)

_____ _____
(Name of Licensee) (File Number)

INSTRUCTIONS:

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

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

MINIMUM FINANCIAL REQUIREMENTS WORKSHEET
Section 260.237.2 CCR

FILE NUMBER:

APPLICANT'S NAME:

COMPUTATIONS AS OF:

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

SUMMARY:

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

NET WORTH [Per Section 260.237.2(d)]

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

EXCLUDED ASSETS [Per Section 260.237.2(d)]

NON CURRENT PREPAID EXPENSES			0.00
DEFERRED CHARGES			0.00
GOODWILL			0.00
FRANCHISE RIGHTS			0.00
ORGANIZATIONAL EXPENSES			0.00
PATENTS			0.00
COPYRIGHTS			0.00
MARKETING RIGHTS			0.00
UNAMORTIZED DEBT DISCOUNT AND EXPENSE			0.00
ALL OTHER ASSETS OF INTANGIBLE NATURE			0.00
HOME, HOME FURNISHINGS, AUTOMOBILES AND OTHER			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	

1773600