



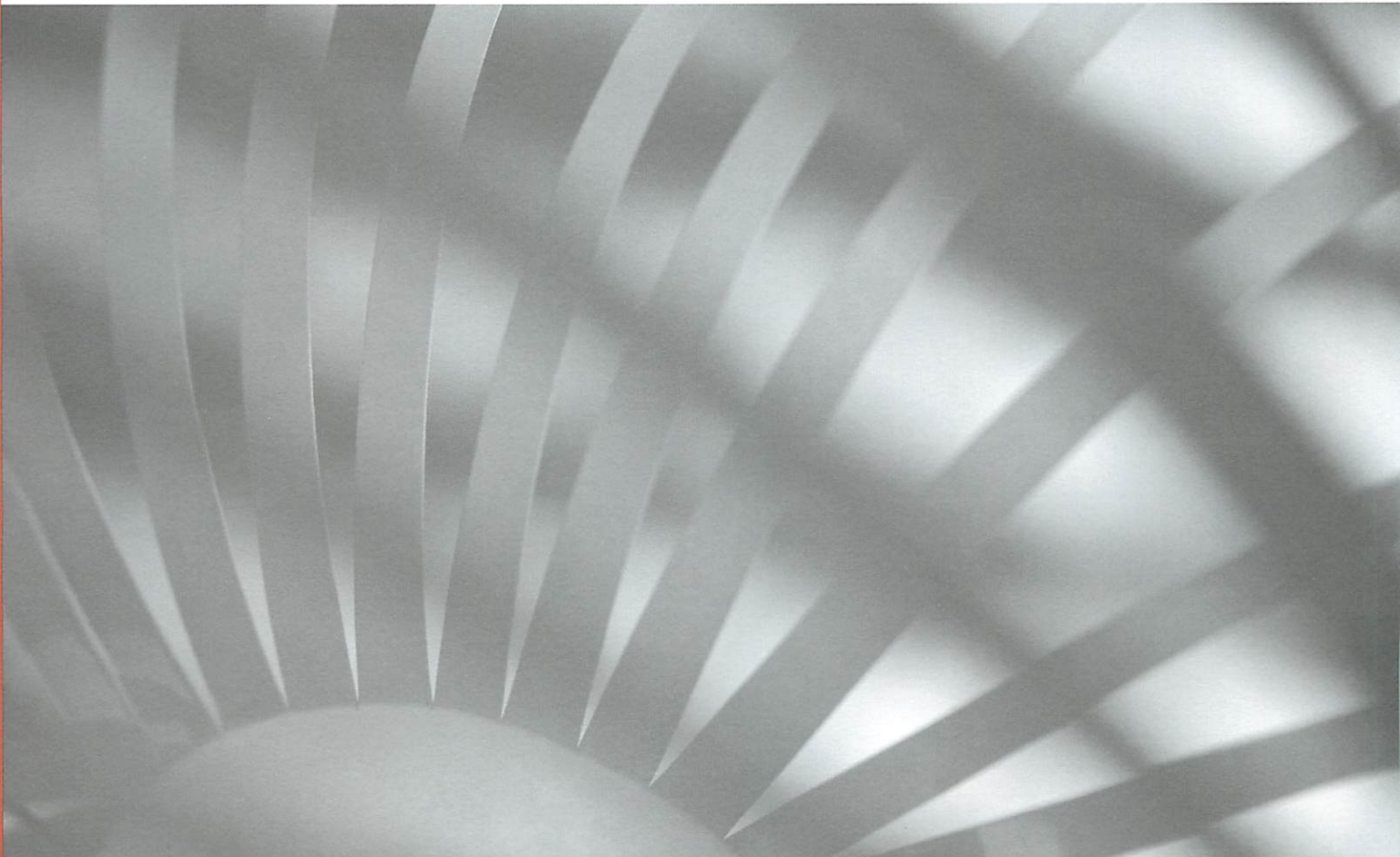
Frost  
Rittenberg &  
Rothblatt PC

*CPAs & Business Advisors*

## **Capitalistpig Hedge Fund, LLC**

### **Financial Statements and Auditor's Report**

**December 31, 2012 and 2011**



**Capitalistpig Hedge Fund, LLC**  
**December 31, 2012 and 2011**

<b>Table of Contents</b>	<b>Page</b>
Independent Auditor's Report .....	1
Statements of Assets, Liabilities and Members' Equity.....	2
Condensed Schedules of Investments in Securities .....	3-4
Statements of Operations.....	5
Statements of Cash Flows .....	6
Statements of Changes in Net Assets .....	7
Notes to Financial Statements .....	8-13

To the Members of  
Capitalistpig Hedge Fund, LLC

### **Independent Auditor's Report**

We have audited the accompanying financial statements of Capitalistpig Hedge Fund, LLC (an Illinois limited liability company), which comprise the statements of assets, liabilities and members' equity, including the condensed schedules of investments in securities, as of December 31, 2012 and 2011, and the related statements of operations, cash flows and changes in net assets for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capitalistpig Hedge Fund, LLC as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Frost, Ruttenberg & Rothblatt, P.C.*

June 17, 2013

- 1 -

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## **Financial Statements**

**Capitalistpig Hedge Fund, LLC**  
**Statements of Assets, Liabilities and Members' Equity**  
**December 31, 2012 and 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Investments in securities, at fair value	\$ 16,954,774	\$ 17,807,819
Cash and cash equivalents	478,177	132,395
Receivable from brokers	-	2,686,503
Other assets	3,939	26
<b>TOTAL ASSETS</b>	<b>\$ 17,436,890</b>	<b>\$ 20,626,743</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>	<b>2012</b>	<b>2011</b>
Redemptions payable	\$ 298,294	\$ 1,661,445
Accrued management fees	24,201	34,381
Payable to brokers	2,462,015	-
Pending subscriptions	450,000	-
<b>TOTAL LIABILITIES</b>	<b>3,234,510</b>	<b>1,695,826</b>
<b>MEMBERS' EQUITY</b>	<b>14,202,380</b>	<b>18,930,917</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 17,436,890</b>	<b>\$ 20,626,743</b>

See accompanying notes.

**Capitalistpig Hedge Fund, LLC**  
**Condensed Schedules of Investments in Securities**  
**December 31, 2012**

<b>Security Description (% of Members' Equity)</b>	<b>Fair Value</b>
<b>Investment in Securities (119.38%)</b>	
<b>Common Stocks</b>	
Japan	
Money Center Bank (5.42%)	\$ 769,640
Foreign Regional Bank (11.28%)	1,602,140
Investment Brokerage (5.04%)	716,140
USA	
Asset Management (3.67%)	521,877
Shipping (0.60%)	85,000
Greece	
Shipping (9.47%)	1,345,600
Entertainment (0.64%)	91,136
Money Center Bank (2.33%)	331,150
Bermuda	
Shipping (5.39%)	765,370
<b>Total Common Stocks (43.84%)</b>	<b>6,228,053</b>
<b>Exchange-Traded Funds</b>	
United States	
ProShares Short (16.88%)	2,396,830
iShares Ultrashort Bond (4.99%)	708,260
iPath Short US Treasury (35.53%)	5,045,657
Van Eck Short-Term Bond (2.26%)	321,360
PowerShares Bank Loan (4.05%)	574,540
Highland Funds Bank Loan (1.70%)	241,680
SPDR State Street Global Short-Term Bond (1.75%)	248,346
<b>Total Exchange-Traded Funds (67.16%)</b>	<b>9,536,673</b>
<b>Foreign Bank Preferred Stocks</b>	
Various Countries	
<b>Total Preferred Stock * (6.42%)</b>	<b>911,527</b>
<b>Senior Floating Rate Term Mutual Fund</b>	
US	
<b>Total Senior Floating Rate Mutual Fund (1.96%)</b>	<b>278,521</b>
<b>TOTAL INVESTMENTS IN SECURITIES, AT FAIR VALUE (COST \$17,266,642)</b>	<b>\$ 16,954,774</b>

See accompanying notes.

**Capitalistpig Hedge Fund, LLC**  
**Condensed Schedules of Investments in Securities**  
**December 31, 2011**

<b>Security Description (% of Members' Equity)</b>	<b>Fair Value</b>
<b>Investment in Securities (94.08%)</b>	
<b>Common Stocks</b>	
Japan	
Electronics (6.89%)	\$ 1,303,500
Manufacturing (9.63%)	1,822,542
Telecommunications (11.74%)	2,222,185
USA	
Shipping (8.32%)	1,575,608
Manufacturing (10.35%)	1,958,740
Greece	
Shipping (0.27%)	50,220
UK	
Shipping (10.49%)	1,985,927
<b>Total Common Stocks (57.69%)</b>	<b>10,918,722</b>
<b>Exchange-Traded Funds</b>	
United States	
ProShares Short (6.14%)	1,161,418
Shipping (3.55%)	672,579
iPath Short US Treasury (19.10%)	3,616,680
Japan	
iShares MSCI Japan Small Cap Index (7.60%)	1,438,420
<b>Total Exchange-Traded Funds (36.39%)</b>	<b>6,889,097</b>
<b>TOTAL INVESTMENTS IN SECURITIES, AT FAIR VALUE (COST \$20,868,463)</b>	<b>\$ 17,807,819</b>

See accompanying notes.

**Capitalistpig Hedge Fund, LLC**  
**Statements of Operations**  
**For the Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Investment Income</b>		
Dividends	\$ 644,771	\$ 526,513
Interest	1,238	45,742
<b>Total Investment Income</b>	<u>646,009</u>	<u>572,255</u>
<b>Investment Expenses</b>		
Investment advisory fees	334,633	514,500
Other expenses	25,372	46,129
<b>Total Investment Expenses</b>	<u>360,005</u>	<u>560,629</u>
<b>NET INVESTMENT INCOME</b>	<b>286,004</b>	<b>11,626</b>
<b>Realized and Unrealized Loss on Investments</b>		
Net realized loss on investments	(227,221)	(2,684,623)
Net unrealized loss on investments	(291,405)	(2,701,814)
<b>Total Realized and Unrealized Loss on Investments</b>	<u>(518,626)</u>	<u>(5,386,437)</u>
<b>NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u><b>\$ (232,622)</b></u>	<u><b>\$ (5,374,811)</b></u>

See accompanying notes.



**Capitalistpig Hedge Fund, LLC**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Decrease In Net Assets		
Resulting From Operations	\$ (232,622)	\$ (5,374,811)
<b>Adjustments To Reconcile Net Decrease In Net Assets Resulting From Operations To Net Cash Provided By Operating Activities</b>		
Net realized loss on investments	227,221	2,684,623
Net unrealized loss on investments	291,405	2,701,814
Sales of investments in securities	35,027,235	38,406,341
Purchases of investments in securities	(34,692,816)	(33,943,727)
(Increase) Decrease in Assets		
Receivable from brokers	2,686,503	812,361
Other assets	(3,913)	1,011
Increase (Decrease) in Liabilities		
Accrued management fees	(10,180)	(26,245)
Payable to brokers	2,462,015	-
<b>Total Adjustments</b>	<b>5,987,470</b>	<b>10,636,178</b>
<b>Net Cash Provided by Operating Activities</b>	<b>5,754,848</b>	<b>5,261,367</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Member subscriptions received	1,145,000	955,576
Member redemptions paid	(6,554,066)	(11,303,519)
<b>Net Cash Used in Financing Activities</b>	<b>(5,409,066)</b>	<b>(10,347,943)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>345,782</b>	<b>(5,086,576)</b>
Cash And Cash Equivalents - Beginning	132,395	5,218,971
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>\$ 478,177</b>	<b>\$ 132,395</b>

See accompanying notes.

**Capitalistpig Hedge Fund, LLC**  
**Statements of Changes in Net Assets**  
**For the Years Ended December 31, 2012 and 2011**

<b>BALANCE - DECEMBER 31, 2010</b>	<b>\$ 36,315,116</b>
Member subscriptions	955,576
Member redemptions	(12,964,964)
Net decrease in net assets resulting from operations	<u>(5,374,811)</u>
<b>BALANCE - DECEMBER 31, 2011</b>	<b>\$ 18,930,917</b>
Member subscriptions	695,000
Member redemptions	(5,190,915)
Net decrease in net assets resulting from operations	<u>(232,622)</u>
<b>BALANCE - DECEMBER 31, 2012</b>	<b><u>\$ 14,202,380</u></b>

See accompanying notes.

# Capitalistpig Hedge Fund, LLC

## Notes to Financial Statements

### December 31, 2012 and 2011

#### **Note (1) Nature of Operations and Summary of Significant Accounting Policies**

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##### **A. Nature of Operations**

Capitalistpig Hedge Fund, LLC (the "Fund") was organized as an Illinois limited liability company in November 1999 and began operations in August 2000. Capitalistpig Asset Management, LLC ("CPAM"), an Illinois limited liability company, is the Manager and Investment Advisor of the Fund. As Manager and Investment Advisor of the Fund, CPAM administers the business affairs and invests the assets of the Fund.

The Fund's objective is to achieve capital appreciation in its net asset value through active trading of equities, fixed income, futures contracts, options and financial securities and obligations. The Manager employs various strategies which include long-term and short-term trading strategies among various market sectors, hedges and collecting premiums through the sales of options contracts while maintaining a portfolio of equity securities and using "short" positions in an attempt to profit from a price decline in the market price of a particular security. Depending upon the circumstances, the Manager may trade one or more of the Fund's types of investments within the same day. The Manager seeks to avoid some aspects of market risk by keeping all, or a portion of, the Fund's holdings in less volatile cash equivalents from time to time.

##### **B. Investments in Securities**

All investments in securities are recorded at their estimated fair value, as described in Note (2).

##### **C. Securities Sold, Not Yet Repurchased**

The Fund may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker through which it made the short sale. A gain, limited to the price at which the Fund sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale. The Fund is also subject to the risk that it may be unable to reacquire a security to terminate a short position except at a price substantially in excess of the last quoted price.

##### **D. Cash Flows**

The Fund considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

##### **E. Cash Balances in Excess of Insured Amounts**

The Fund maintains its cash in accounts which frequently exceed federally insured limits. The Fund has not experienced any losses due to these limits.

**Capitalistpig Hedge Fund, LLC**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note (1) Nature of Operations and Summary of Significant Accounting Policies – Continued**

**F. Receivable/Payable from/to Brokers**

In the normal course of business, all of the Fund's marketable securities transactions are transacted with brokers. The Fund is subject to credit risk to the extent the brokers with which it conducts business are unable to fulfill contractual obligations on its behalf. The Manager monitors the financial condition of its brokers and does not anticipate any losses from its brokers. Receivables from brokers represents cash held at brokers and a net receivable for executed, but unsettled, transactions. Payables to brokers represents a net payable for executed, but unsettled, transactions.

**G. Income Taxes**

The Fund has elected to be taxed as a partnership. Under those provisions, the Fund does not pay federal income taxes on its taxable income. Instead, the individual members are liable for individual taxes on their respective share of the Fund's taxable income. In addition, the Fund and its investors may be subject to state, local and other taxes. The Fund is not subject to Illinois replacement tax.

The Fund accounts for any potential interest or penalties related to the possible future liabilities for unrecognized income tax benefits as interest/other expense. The Fund is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2008.

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results may differ from those estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

**I. Other**

The Fund records security transactions based on a trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis.

**J. Subsequent Events**

The Fund evaluated all significant events or transactions that occurred through June 17, 2013, the date these financial statements were available to be issued.

# Capitalistpig Hedge Fund, LLC

## Notes to Financial Statements

### December 31, 2012 and 2011

#### Note (2) Securities Valuation

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As described in Note (1), the Fund utilized various methods to measure the fair value of its investments on a recurring basis. The fair value measurements and disclosures topic establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Securities and exchange-traded funds traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy.

**Capitalistpig Hedge Fund, LLC**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note (2) Securities Valuation – Continued**

The following table summarizes the inputs used to value the Fund's assets and liabilities measured at fair value as of December 31, 2012 and 2011.

Description	Fair Value Measurements at Reporting Date Using			
	Fair Values as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Securities Owned</b>				
Corporate stocks	\$ 6,228,053	\$ 6,228,053	\$ 0	\$ 0
Exchange traded funds	9,536,673	9,536,673	0	0
Preferred stocks	911,527	911,527	0	0
Mutual fund	278,521	278,521	0	0
<b>Total Securities Owned</b>	<b>\$ 16,954,774</b>	<b>\$ 16,954,774</b>	<b>\$ 0</b>	<b>\$ 0</b>

Description	Fair Value Measurements at Reporting Date Using			
	Fair Values as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Securities Owned</b>				
Corporate stocks	\$ 10,918,722	\$ 10,918,722	\$ 0	\$ 0
Exchange traded funds	6,889,097	6,889,097	0	0
<b>Total Securities Owned</b>	<b>\$ 17,807,819</b>	<b>\$ 17,807,819</b>	<b>\$ 0</b>	<b>\$ 0</b>

**Capitalistpig Hedge Fund, LLC**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note (3) Investment Advisory Fees and Other Transactions with Affiliates**

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The Fund receives investment management and advisory services under a management agreement with CPAM that provides for fees to be calculated and paid monthly (regardless of performance of the Fund and regardless of whether any distributions were made to members) equal to 1/6 of 1% of the Fund's month-end net asset value (2% per year), payable in cash within three business days of the end of such month. The management fee is calculated after allocations of the net profits and losses of the Fund for that month. For the years ended December 31, 2012 and 2011, the Fund paid CPAM \$334,633 and \$514,500, respectively.

CPAM receives a performance-based fee, payable monthly, equal to 20% of the amount that trading profits exceed the percentage change of the performance fee benchmark index selected by CPAM, which is initially the Consumer Price Index. The benchmark index may be changed quarterly by CPAM without investor approval; however, written notifications of such change will be provided to members by CPAM. For the years ended December 31, 2012 and 2011, CPAM waived the performance fee.

**Note (4) Financial Highlights**

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Financial highlights for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
<b>Total Return</b>	<u>(1.68)%</u>	<u>(19.19)%</u>
<b>Ratio as a Percentage of Average Net Assets:</b>		
Expenses	<u>2.16%</u>	<u>2.18%</u>
Net investment income (loss)	<u>1.71%</u>	<u>0.05%</u>

Total return is based on the change in value during the period based on an investment made at the beginning of the calendar year. Individual investor's ratios may vary from these ratios based on various factors, including among other, the timing of capital transactions.

The ratios above are computed based upon the weighted average net assets for the Fund for the years ended December 31, 2012 and 2011. Net investment income excludes net realized and unrealized gain on investments and foreign currency contracts.

**Note (5) Operating Agreement**

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Subscriptions may be purchased at the end of each month. The minimum contributions for new and existing members are \$300,000 and \$10,000, respectively. The Manager reserves the right to use sole and absolute discretion to permit the purchase of subscriptions at any time other than the month-end.

**Capitalistpig Hedge Fund, LLC**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note (5) Operating Agreement – Continued**

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A capital account is maintained for each member. The initial value of a member's capital account is equal to the dollar amount of the member's initial investment in the Fund. Thereafter, each member's capital account balance is increased or decreased by the amount of their additional capital contributions, redemptions or distributions, and the adjustments based on appreciation or depreciation of the Fund. Adjustments based on appreciation or depreciation of the Fund will be allocated to members in proportion to their respective membership interest, after reduction for fees and expenses.

A member may cause any or all of their capital account to be redeemed by the Fund at the end of any month at its net asset value subsequent to one calendar month after the initial investment. The Fund's minimum redemption is \$10,000. The member must give the Fund no less than five business days notice to withdraw the specified amount from the member's capital account on the appropriate withdrawal date. Any member who withdraws all or a portion of their member capital balance within the first 12 months from the date of their investment in the Fund will be assessed a withdrawal fee equal to 6% of the net asset value of the amount withdrawn, which amount shall be deducted from such account upon withdrawal. In addition to the foregoing, the Manager may amend, modify or restrict the terms and conditions of members' withdrawal privileges upon the occurrence of certain events detailed within the Fund's operating agreement.

**Note (6) Indemnifications**

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In the normal course of business, the Fund enters into contracts that contain a variety of representation and warranties that provide indemnification under certain circumstances. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. The Fund expects the risk of any future obligation under these indemnifications to be remote.

**Note (7) Subsequent Events**

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From January 1, 2013 through May 31, 2013, the Fund received member subscriptions of \$650,000 and paid member redemptions of \$1,462,500.