

# Excelsior Capital Management, LLC

## Part 2A of Form ADV The Brochure

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Chicago, IL 60606

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This brochure provides information about the qualifications and business practices of Excelsior Capital Management, LLC (“ECM”). If you have any questions about the contents of this brochure, please contact ECM’s Chief Financial Officer, Marvin G. Behm, at 312-782-7855. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Please note, any registration with the U.S. Securities and Exchange Commission or any state securities authority does not imply or guarantee any level of skill or training for an investment advisor.

Additional information about Excelsior Capital Management, LLC also is available on the U.S. Securities and Exchange Commission’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

ECM's most recent update to Part II of Form ADV was made in 2009. ECM's business activities have not changed materially since the time of that update. However, in 2010 the SEC required significant changes to the content and format of Part II of Form ADV. While this brochure, which reflects those changes, is materially different from the Form ADV Part II used by ECM in prior years, its contents were largely included in marketing brochures given to all prospective clients.

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## Advisory Business

ECM primarily provides investment management services to high-net-worth individuals and associated trusts, estates, pension plans, family offices and other legal entities. Clients typically invest either in a domestic or an internationally-based fund managed by ECM, or give ECM trading authority of a client-held account.

ECM pursues numerous relative value arbitrage strategies, with an emphasis on exploiting its option and volatility experience, to attempt to earn superior risk adjusted returns. ECM was founded in 2000 and is primarily owned by its Managing Partners James A. White and Edward E. Lees. As of December 31, 2011, ECM managed approximately \$25 million of net assets on a discretionary basis on behalf of approximately 25 clients.

## **Fees and Compensation**

ECM charges its new clients an annual investment management fee of 2% and 20% performance fees.

ECM has negotiated lower fees for certain clients holding illiquid investments in managed funds closed to new investment. All clients who made an investment in a certain fund before September 2002 are also charged a lower fee on that investment.

ECM charges management fees monthly in arrears based on the account value before fees at the end of that month. For clients invested in managed funds, the funds pay ECM the fees when due. For clients in managed accounts, the client pays fees to the manager separately from the client investment account being managed.

In addition to ECM's investment management fees, clients also bear trading costs and custodial fees. In addition, clients invested in managed funds also bear market data and valuation expenses, trading technology expenses, third-party accounting expenses, independent auditing expenses, fund tax return expenses and any non-ECM administrative or legal costs.

## **Performance Based Fees and Side-by-Side Management**

ECM charges performance fees. Performance fees are generally accrued monthly on profits above the previous high-water mark and paid quarterly. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are negligible for ECM. ECM chose a fund structure for investment management to facilitate the fair-sharing of profit on underlying investments. For the highly-liquid and widely-traded securities that the firm utilizes for side-by-side accounts, clients either 1) receive average price along with the side-by-side account, 2) the client funds are traded by a different trader than the side-by-side account, or 3) client funds are traded before any proprietary funds are traded by the same trader.

## **Types of Clients**

ECM provides investment management services primarily via private fund vehicles with investment open to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, family offices and other legal entities.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### General Philosophy

ECM employs a variety of strategies that can be categorized into three broad classifications – Volatility Relative Value, Long Volatility, and Short Volatility. Relative Value trades are generally volatility neutral in nature, while we try to balance our long and short volatility trades into a portfolio that has a net neutral volatility exposure subject to our opinion of the general direction of volatility. Specifically, we have observed overtime that volatility experiences cyclical bull and bear markets just like other assets. The periods of 1987-1991, 1997-2002, and 2007 -?

were high volatility regimes while 1992 –1996 and 2003 –2006 were low volatility regimes. During high volatility regimes we want to be net long volatility. During low volatility regimes we want to be net neutral to slightly short volatility with the caveat that if short volatility, we always buy protection on the wings of the distribution.

### Relative Value Strategies

Opportunities to initiate relative value trades are created by temporary supply/demand imbalances. Trades have positive expected return at inception based on past statistical relationships or an expected change in existing relationships based on macro or fundamental analyses. Examples include:

- Index vs. Index pairs –expressed via vanilla option straddles or variance swaps, for example long FTSE variance swap short variance swap on Eurostoxx index.
- Equity vs. Equity pairs –expressed via vanilla options for example long HD straddle short LOW straddle, long puts on BA short puts on LMT.
- Vanilla Option vs. Exotic Option –for example long a down and out call and short a vanilla call on the same underlying security.
- Calendar Spreads –take advantage of apparent supply demand dislocations in the volatility term structure of an underlying security. For example stock ABC reports earnings shortly after January expiration but February options are trading at the same implied volatility as January options; trade would be to buy Feb sell Jan volatility.
- Realized Volatility/ Time arbitrage –takes advantage of a security realizing different volatilities over different intraday time periods on the same day.
- SPX / VIX Arbitrage –takes advantage of idiosyncratic behavior of premium/discount of VIX futures to actual implied volatility of SPX options.
- Capital Structure Arbitrage –takes advantage of different realized volatilities experienced by different share classes of the same company.
- Convertible Bond Arbitrage –low implied volatilities available in the convertible bond market are bought through the bonds and then significantly higher volatility trading in the listed options market is sold against it. Bonds are subject to rigorous and conservative credit analysis

### Long Volatility Strategies

We systematically search for relatively cheap volatility using quantitative and qualitative factors. Quantitative factors include implied volatility trading low relative to realized volatility and/or past implied levels. Qualitative factors include view that high realized volatility will persist based on our macro fundamental and technical analyses or that a catalyst willsoon cause realized volatility to increase above current implied levels. Examples include:

- Long Individual Equity Volatility –expressed through purchasing straddles for various possible reasons for example –
  - oEvent Driven –buy volatility prior to corporate announcement.
  - oStatistical –buy volatility trading cheap to historical volatility if our view is that higher volatility will continue.
  - oMacro Theme –for example buying volatility on financials in 2008.
- Long Index Volatility -expressed through vanilla or exotic options. Index options are used as a blunt instrument to add long volatility exposure when advantageous.

- Long Commodity Volatility –expressed through options on futures. Commodity markets are analyzed to uncover any attractive long volatility ideas. Commodity volatility may be at times uncorrelated to equity market volatility.
- Long CDS –when they are cheap credit default swaps may be purchased as a more cost effective substitute for puts.
- Long Directional volatility –expressed through vanilla puts or calls or an exotic option structure. A small percentage of our book is initiated with a directional bias. A long optionality structure is used so maximum risk is known. Trades based on a combination of technical and macro/fundamental analyses.

### Short Volatility Strategies

Short volatility strategies are used more as a balance against our long volatility strategies than as our primary source of return. When not net long volatility across the whole portfolio, short positions are protected by buying volatility on the wings. Examples include:

- Short Individual Equity Volatility –expressed via short straddles, long condors or butterflies or short ratio spreads. We search for equity options whose implied volatility appears too high relative to its realized volatility considering the fundamentals.
- Short Index volatility –expressed via long condor or variance swaps. We never have unbounded downside risk in index volatility. Trade seeks to capitalize on systematic overpricing of index volatility during low volatility regimes.
- Short Index Ratio Call Spreads –expressed via vanilla index calls. Trade capitalizes on behavior of call index call skew during market rallies, simply realizes credit during down trends.

ECM typically engages in short selling or option writing to implement volatility arbitrage strategies. The use of short selling and option writing poses additional risks than the simple buy-and-hold of securities, but ECM's use of these trading tactics is discussed in detail with prospective clients and appropriately monitored by its risk management processes.

All investing involves a risk of loss.

## **Disciplinary Information**

ECM and its employees have not been involved in any legal or disciplinary events in the past 12 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

ECM and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest for prospective clients.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

ECM has adopted a written code of ethics that is applicable to all of its owners and employees. Among other things, the code requires ECM to always act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. ECM's restrictions on personal securities trading

not only apply to ECM's personnel, but also to all personnel's family members living in the same household as well. A copy of ECM's code of ethics is available upon request.

ECM's owners and employees are generally permitted to personally trade in securities only when client funds are not active in that particular security. If client strategies call for resting orders in a security, an owner or employee may be approved to trade an appropriately small amount (that does not impact the market) by the discretion of the Chief Compliance Officer or a Managing Partner and the completion of the trade must immediately be reported. The Chief Compliance Officer monitors personal trading, relative to client trading, to ensure that owners and employees do not engage in improper transactions.

## **Brokerage Practices**

ECM evaluates brokers and trading counterparties primarily on cost, trading efficiency, service and financial stability. ECM had client funds placed in segregated-client futures accounts at MF Global, Inc. but acted proactively to sweep most free cash (about 80% of account value) from MF Global when its financial stability came under wide scrutiny in late October, just a week before MF Global filed for bankruptcy and even the regulated segregated-client accounts became frozen.

### Soft Dollar Benefits

ECM does not receive any products and services from the brokers used for clients' managed funds or managed accounts. .

### Client Referrals

ECM does not compensate any broker/dealer or other provider of operating services for referring clients,

### Best Execution Reviews

On at least an annual basis ECM's Managing Partners and Chief Compliance Officer evaluate the pricing and services offered by our brokers and other trading counterparties with those offered by other reputable firms

### Directed Trades

ECM may in the future permit a separate managed account to direct the brokerage of that account's trades, but ECM may not be able to guarantee the same trade execution time and price for directed brokerage trades as in its other client managed funds and accounts.

### Aggregated Trades

ECM typically attempts to aggregate client trades in an effort to treat all clients fairly. Clients participating in a bunched order receive the same average price and incur trading costs that are the same as would be paid if they were trading individually. Firm proprietary trades may be included side-by-side in bunched client trades. Individual employees are excluded from bunched trades.

## **Review of Investments and Accounts**

Investments are monitored by ECM's management on an ongoing basis. Active trading positions are constantly monitored and illiquid positions are reviewed at least monthly.

Clients of managed funds receive account statements from the respective fund administrator typically on a quarterly basis. Clients of managed accounts receive account statements directly from the custodian they have chosen to hold the account.

## **Client Referrals and Other Compensation**

While ECM does not compensate any broker/dealer or other provider of operating services for referring clients, it may compensate a third-party marketer or other independent entity for client referrals. ECM specifically considers any potential conflict of interest before agreeing to compensate anyone for client referrals.

ECM believes it does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients. ECM has chosen to use the same provider to prepare tax returns for managed funds (in which ECM itself is a significant investor) as well as ECM and affiliates, but ECM believes the invoices billed and paid by each separate entity fairly represent the effort and cost of each entity.

## **Investment Discretion**

ECM has investment discretion over all client funds and accounts.

## **Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, ECM has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that ECM receives in a timely manner will be treated in accordance with these policies and procedures, which are aimed to always be in the best interest of client funds.

A copy of ECM's proxy voting policies and procedures, as well as specific information about how ECM has voted in the past, is available upon written request.

## **Financial Information**

ECM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

# Excelsior Capital Management, LLC

## Part 2B of Form ADV The Brochure Supplement

200 W. Madison, Suite 2420  
Chicago, IL 60606

Updated: November 2011

This brochure supplement provides information about James White, Edward Lees and Marvin Behm. It supplements ECM's accompanying Form ADV brochure. Please contact ECM's Chief Compliance Officer, Marvin G. Behm, at 312-782-7855 if you have any questions about the Form ADV brochure or this supplement, or if you would like to request additional or updated copies of either document.



## **James A White, Jr. Biographical Information**

### Educational Background and Business Experience

Mr. White graduated from Washington and Lee University in 1986 with a Bachelor of Science degree in Business Administration where he was elected as Vice President of the student body and sophomore representative to the honor council. After graduation, he joined the United States Air Force and became a fighter pilot employing the F-16 Fighting Falcon. Mr. White flew as a combat ready fighter pilot for the 182nd Fighter Squadron.

After his active duty obligation to the military was fulfilled, he moved to Chicago and became a member of the Chicago Mercantile Exchange. He worked for Futrex Trading, LLC as a market maker in the S&P 500 options. In 1992, he moved to Klee Research and Trading, a proprietary trading firm. He was responsible for overseeing market-making operations in the S&P 500 options as well as Soybean options. During his tenure at Klee Research, he also successfully utilized various speculative strategies such as grain spread trading and volatility plays in the S&P 500. During this time, he maintained his combat ready status as a fighter pilot in the reserves. In 1995, after eight years of service, Mr. White left the military having fulfilled his reserve commitment..

In 1997, Mr. White formed his own proprietary trading operation utilizing the aforementioned strategies. Three years later, Mr. White joined his former firm Futrex Trading, LLC to pursue electronic index arbitrage strategies. In 1999, Mr. White associated himself with the other principals of the fund for the purpose of establishing a track record with the goal of starting a hedge fund.

Mr. White holds a Master of Business Administration degree from the University of Chicago. He is 47 years old.

### Disciplinary Information

Mr. White has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. White or of ECM.

### Other Business Activities

The principals of ECM also have a small proprietary trading account. Mr. White is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of ECM and the small proprietary account.

### Additional Compensation

Mr. White does not receive economic benefits from any person or entity other than ECM and a small proprietary trading account in connection with the provision of investment advice to clients.

### Supervision

As one of ECM's founders and one of two Managing Partners, Mr. White maintains ultimate co-responsibility for the firm's business. Mr. White coordinates investment decisions with Mr. Lees, but is able to manage the firm's entire investment portfolio from Dallas in case of an emergency. Mr. White can be reached directly at 469-916-9167.

## **Edward E. Lees's Biographical Information**

### Educational Background and Business Experience

Mr. Lees graduated from the University of Michigan in 1980 with a Bachelor of Science degree in Economics. After graduation Mr. Lees went to work for the Kansas City Board of Trade as an analyst. In 1982, he began his trading career by becoming a member of the KCBOT and trading for his own account.

In 1984, Mr. Lees moved to the Chicago Mercantile Exchange, trading futures on the S&P 500. He soon became interested in the options markets and went to work for the proprietary trading arm of Rosenthal-Collins Group as an options market maker in 1986. In 1988, he moved to Klee Research and Trading where he was the senior stock index option trader until 1999.

While a member of the CME, Mr. Lees served for several years on the S&P 500 options pit committee and was chairman of that committee for one year. In 1999, Mr. Lees left the trading floor to found Excelsior Capital Management, LLC. Excelsior Partners L.P. began trading in January 2000 and is now its 12<sup>th</sup> year of operation.

Mr. Lees is 54 years old.

### Disciplinary Information

Mr. Lees has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Lees or of ECM.

### Other Business Activities

The principals of ECM also have a small proprietary trading account. Mr. Lees is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of ECM and the small proprietary account.

### Additional Compensation

Mr. Lees does not receive economic benefits from any person or entity other than ECM and a small proprietary trading account in connection with the provision of investment advice to clients.

### Supervision

As one of ECM's founders and one of two Managing Partners, Mr. Lees maintains ultimate co-responsibility for the firm's business. Mr. Lees coordinates investment decisions with Mr. White, but is able to manage the firm's entire investment portfolio from Chicago in case of an emergency. Mr. Lees supervises the firm's Chicago headquarters office. Mr. Lees can be reached directly at 312-782-7614.

## **Marvin G. Behm's Biographical Information**

### Educational Background and Business Experience

Mr. Behm graduated from Ohio State University in 1981 with a Bachelor of Science degree in industrial and systems engineering, where he was selected as an Outstanding College of Engineering Senior, a General Motors Scholar and a National Machinery Foundation Fellow. After graduation he joined GM full-time in one of their component divisions, gaining broad manufacturing experience as a production supervisor, industrial engineer, cost and budgeting accountant, management systems analyst, quality control manager and strategic planner.

In 1986, Mr. Behm graduated at the top of his MBA class at Northwestern University's Kellogg Graduate School of Management, where he was an Austin Scholar and GM Fellow. He then worked for The Procter and Gamble Company in progressively broader assignments in the financial management of food, beverage, personal care and cleaning products sold to traditional retailers as well as institutional customers such as restaurants, hospitals and hotels.

Mr. Behm joined Duff and Phelps Credit Rating Co. in 1993 and was promoted to Vice President in 1994. He was the firm's global lead analyst of the motor vehicle industry, and also had responsibilities at various times for the gaming, lodging, retailing and machinery industries and a number of diversified industrial companies. He covered investment grade, high yield and distressed credits, as well as private placements, in these industries.

Mr. Behm started working for Excelsior Capital Management, LLC in 2003. He is 53 years old.

### Disciplinary Information

Mr. Behm has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Behm or of ECM.

### Other Business Activities

The principals of ECM also have a small proprietary trading account. Mr. Behm is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of ECM and the small proprietary account.

### Additional Compensation

Mr. Behm does not receive economic benefits from any person or entity other than ECM and a small proprietary trading account in connection with the provision of investment advice to clients.

### Supervision

Mr. Behm reports to the two Managing Partners, Mr. White and Mr. Lees, and is the Chief Financial Officer and the Chief Compliance Officer of ECM. He is responsible for fund accounting, administration and internal controls and for firm compliance. Mr. White and Mr. Lees' direct numbers are included in their biographical sections above.