

**PEAK6 ADVISORS LLC**  
**Part 2A of Form ADV: Firm Brochure**

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**This brochure provides information about the qualifications and business practices of PEAK6 Advisors LLC, an investment adviser registered with the United States Securities and Exchange Commission. If you have any questions about the contents of this brochure, please contact us at 312-362-2401. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about PEAK6 Advisors LLC is also available at  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

## **SUMMARY OF MATERIAL CHANGES**

PEAK6 Advisors LLC's ("PEAK6") most recent update to the second part of its Form ADV, also known as its "brochure," was made in March 2012. Revisions to this brochure are primarily to update information and provide clarifications. We encourage you to review the document in its entirety.

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## **ADVISORY BUSINESS**

PEAK6 was founded in December 2005. The principal owners of PEAK6 are Matthew Hulsizer and Jennifer Just, who own their interests indirectly.

PEAK6 serves as the discretionary investment adviser to private investment funds offered only to high-net-worth, financially sophisticated institutional and individual investors, and to trading vehicles employed by these funds.

The private investment funds are as follows:

PEAK6 Performance Fund LLC, a Delaware limited liability company, and PEAK6 Performance Fund Ltd., a Cayman Islands exempted company collectively referred to in this brochure as the “Performance Funds.” The Performance Funds invest substantially all of their assets into trading vehicles for which PEAK6 serves as the discretionary investment adviser. These trading vehicles include PEAK6 Performance Management LLC, a Delaware limited liability company which we will refer to as an “Onshore Trading Subsidiary,” and PEAK6 Cayman Management Ltd., a Cayman Islands exempted company which we will refer to as an “Offshore Trading Subsidiary.”

In addition, PEAK6 also serves as a discretionary investment manager for the PEAK6 Vega Fund LLC, a Delaware limited liability company, and the PEAK6 Vega Fund Ltd., a Cayman Islands exempted company collectively referred to as the “Vega Funds.” The Vega Funds substantially invest all of their assets through a ‘master-feeder’ fund structure to become a shareholder in PEAK6 Vega Master Fund Ltd. (another “Offshore Trading Subsidiary”), which in turn is a member of and invests substantially all of its assets into PEAK6 Vega Master Fund LLC, a Delaware limited liability company (another “Onshore Trading Subsidiary”).

The Performance Funds and Vega Funds are referred to as the “Funds” throughout this document. The Onshore Trading Subsidiaries and Offshore Trading Subsidiaries are collectively referred to as the “Trading Subsidiaries” throughout this document.

In this brochure for convenience we will generally refer to trading activities on behalf of the Funds, but virtually all of the trading activity occurs at the Trading Subsidiaries level.

PEAK6 has complete authority to pursue any of the following strategies or ‘techniques’ on behalf of the Funds: volatility arbitrage; convertible arbitrage; fundamental equity; equity long-short trading; event-driven arbitrage, a “hybrid-strategy” combining elements of various other strategies, over-the-counter, or “OTC,” trading; and futures trading. In addition, PEAK6 has broad authority to pursue any other investment strategy that PEAK6 deems to be in the best interests of the Funds. For additional detail on the strategies and material risks of the Funds see the section of this brochure entitled “Methods of Analysis, Investment Strategies and Risk of Loss.”

The Trading Subsidiaries trade securities utilizing the capital invested by the Funds. The Trading Subsidiaries enter into arrangements with brokerage firms that are designed to enhance the Funds’ ability to execute transactions more efficiently and cost effectively and to obtain leverage on more favorable terms. In addition, the Onshore Trading Subsidiaries are registered as broker-dealers.

PEAK6 has full discretion in trading on behalf of the Funds. It is not required to, and does not, seek approval from the Funds, or the investors in the Funds, with respect to its trading.

As of December 31, 2011, PEAK6 managed approximately \$1,001,283,421 of client assets, all of which is managed on a discretionary basis.

## **FEES AND COMPENSATION**

*Management and Performance Fees;* PEAK6 charges a quarterly management fee equal to 0.5% of the net asset value of an investor's interest in a Fund, which is equivalent to an annual rate of approximately 2%. The management fee is prorated if an investor subscribes or withdraws at a time other than the beginning or end of a quarter. PEAK6 also receives an annual incentive allocation or fee equal to twenty percent of the "new net profits" experienced by investors in the Funds. New net profits are any profits allocated to an investor over a "high-water mark," which is equal to the greater of zero or the cumulative level of profits allocated to the investor as of the end of any previous fiscal year. New net profits include both realized and unrealized gains and losses. PEAK6 Investments, L.P., which is an affiliate of PEAK6 and which we will refer to as "PEAK6 Investments," invests in the PEAK6 Performance Fund LLC but does not pay management or performance fees.

*Method of Payment of Fees;* Management fees are deducted from the Funds and paid at the end of each quarter. Incentive compensation, if any, is paid annually.

*Operating Expenses;* In addition to management and performance fees, the Funds pay various transactional expenses and operating costs. Specifically, the Funds pay expenses relating to investment activities, including brokerage commissions, prime brokerage fees, data feed costs, market data costs, interest expenses, stock loan expenses, regulatory and self regulatory fees, and other transaction charges. The Funds also bear expenses relating to cash management and fees relating to the Funds' administration, such as administrator fees, legal fees, management and fund liability insurance premiums, audit and accounting fees, tax and custodial fees and related expenses. In addition, the Funds indirectly bear their *pro rata* share of the costs and expenses incurred by the Trading Subsidiaries. Additional information on fund expenses can be obtained in the respective funds' offering document.

*Brokerage and Transaction Costs;* The transaction costs most frequently incurred by the Funds are brokerage commissions, which are direct charges of a broker-dealer that acts as the Funds' agent in executing a trade, and bid-ask spreads, which represent the difference between the prices at which dealers purchase and sell instruments traded by the Funds. The Funds also incur other transaction costs and expenses in connection with their trading and investment activities, and custodian fees for Fund assets held in cash or securities at various banks, broker-dealers and other financial institutions. For a discussion of the brokerage arrangements that PEAK6 enters into on behalf of the Funds see the "Brokerage Practices" section in this brochure.

*Negotiation of Fees; Waivers;* PEAK6's fees are generally not negotiable, however, PEAK6 may, in its discretion, waive all or a portion of its management or incentive fees for a particular investor.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As discussed in the previous section, entitled "Fees and Compensation," PEAK6 receives performance-based compensation in the form of a fee or allocation equal to a Fund investor's new net profits. PEAK6 does not currently manage any accounts that have a different fee structure, such as accounts that pay only an asset-based fee.

The performance-based compensation received by PEAK6 creates a conflict between PEAK6's interest earning a profit in the short term with the long-term interests of the Funds and their investors. Specifically, PEAK6 may have an incentive to invest Fund assets in investments that are riskier or more

speculative than would be the case if PEAK6 were only compensated based on a flat percentage of capital, because these investments may allow PEAK6 to collect larger performance-based compensation.

## **CLIENTS**

PEAK6 provides discretionary investment advice to the Funds and the Trading Subsidiaries. Investors are required to meet certain eligibility and suitability standards as set forth in the Funds' offering documents. The minimum investment in the Funds range from \$1 million to \$5 million, although these minimums can generally be reduced or waived in PEAK6's sole discretion.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***Summary of Strategies Employed by PEAK6***

- PEAK6 has complete authority to pursue any of the following strategies or "techniques" on behalf of the Funds: ***Volatility Arbitrage***. The Funds' volatility arbitrage strategy is generally described as a relative value and balanced equity volatility strategy that seeks to capitalize on inefficiencies in the U.S. derivatives markets. In pursuing this strategy PEAK6 does not seek to predict broad market trends, but rather seeks to manage risk exposures within a narrow band that net exposures remain relatively neutral. The Funds seek to capture the difference between the theoretical price of an option as determined by PEAK6 and the price of the option in the marketplace. The theoretical price of an option is determined using a variety of proprietary software tools which measure, on a real-time basis, the actual volatility of an underlying instrument and compare this volatility to the implied volatility of the options on that underlying instrument. When there is a difference between actual and implied volatility, there is a potential trading opportunity PEAK6 attempts to reduce or hedge the risk of directional moves in the market by purchasing or selling the instruments underlying certain of the Funds' options positions or by purchasing or selling other options.
- ***Convertible Arbitrage***. PEAK6 will purchase or sell swaps, convertible bonds, preferred stocks, warrants or options that it determines to be under-valued or over-valued relative to their underlying equity security and as such may be long or short an amount of the corresponding equity security. PEAK6 seeks to profit from these positions through receipt of interest or dividend payments, changes in the price difference between the instruments, or "spreads," and, if available, rebates on short positions. In addition, PEAK6 may seek profits from dynamic trading and earning income by selling, or "writing," options. PEAK6 may take advantage of multiple share classes or other parts of a company's capital structure and may also trade in the listed or over-the-counter options markets to take advantage of perceived mispricing between the convertible and warrant markets and the listed options markets.
- ***Fundamental Equity and Equity Long-Short Trading***. The equity securities in which the Funds may invest include common and preferred stocks and warrants or other similar rights and convertible securities. The investment philosophy for trading equities as part of a fundamental or long-short strategy is predicated on the belief that over time, market prices and value converge, and that investments in securities priced significantly below long-term value present the best opportunities to achieve capital appreciation. In a long-short strategy, the objective is to have a long position in the stock likely to outperform, and a short position in the stock likely to underperform, the market. Although the combination of long and short investing can provide an element of protection against directional market exposure, it does not eliminate market exposure.

- **Event Driven Strategy.** Performance Funds' event-driven strategy generally involves investments in companies involved in a corporate event such as a merger, takeover, spin-off, recapitalization, leveraged buyout, a distressed situation, or some other extraordinary corporate transaction. PEAK6 will seek to profit from perceived pricing inefficiencies preceding or following these events. Target investments may include transactions involving large and small capitalization companies that have been publicly announced or investments in companies that are viewed as potential candidates for merger, acquisition or other extraordinary transactions.
- **Hybrid Strategy.** The Performance Fund's hybrid strategy looks across equity sub-strategies, such as, but not limited to, fundamental long-short, convertible arbitrage, risk arbitrage, event driven, volatility arbitrage, and special situations, in an attempt to create an optimal portfolio for a period of time. Most trades either involve choosing what PEAK6 considers the optimal sub-strategy to express a viewpoint, or more commonly combining two or more sub-strategies together to create what PEAK6 believes to be an optimal position. The Funds may take relatively large positions in connection with this hybrid strategy. The investment process for the hybrid strategy takes into consideration the general market environment, including liquidity, availability of capital, inflation, interest rates, and other factors. This is generally followed by an analysis of individual securities that appear to be mispriced based upon the initial general assessment described. If a trade opportunity is believed to exist after these assessments, a bottom up fundamental analysis is then conducted to obtain a deep understanding of the issuer's capital structure and general economic health by analyzing cash and debt. If an opportunity exists, an attempt is made to construct options positions that offer the opportunity to own the issuer at prices deemed inexpensive, and, sell the security the issuer at prices deemed excessive.
- **OTC Trading.** The Funds may invest a portion of their assets in investments which are not traded on organized exchanges and as such are not standardized. Such transactions are known as "over-the-counter," or "OTC," transactions and may include forward contracts, options or swaps, among other instruments.

PEAK6 may pursue any other investment strategy that PEAK6 deems to be in the best interests of the Funds.

PEAK6 generally makes capital allocations to the various strategies at the beginning of each month with a view toward allocating to the strategies that have the greatest short-term and long-term opportunities. PEAK6 may reallocate capital more frequently if it deems this appropriate. Targeted average strategy weightings for each equity strategy depend on market conditions. PEAK6 will hold a significant amount of cash on behalf of the Funds at times rather than pursuing one of the various trading strategies. PEAK6 may also add new strategies or eliminate strategies if market opportunities are no longer profitable.

The majority of the Funds' trading relies on "Trading Technology," which consists of proprietary software tools developed and refined over a period of years by PEAK6 Investments. The Trading Technology is provided by PEAK6 Investments on a non-exclusive, perpetual and royalty free basis. In trading for the Funds, PEAK6 utilizes both a systemic and technical, as well as a fundamental approach. Investment decisions are not usually made simply by following trading signals generated by the Trading Technology, but rather through operation of the software tools by portfolio managers who understand them. PEAK6's trade identification process varies by strategy and can include one or more types of analyses, including, but not limited to, absolute risk return, relative value, historical analysis, fundamental research, and micro and macro events. The number of issuers traded and positions vary depending upon the strategy traded and capital allocation to each strategy. The sectors traded and holding periods also vary by strategy.

PEAK6's strategy selection process may involve a "bottom up" approach to finding value combining a quantitative approach with a fundamental analysis. As part of the selection process, for some portfolios, PEAK6 conducts relative, historical, fundamental and scenario analyses to determine any risk and reward of a potential trade idea. For other portfolios, various strategies are employed in attempt to create an optimal portfolio for a period of time, often with volatility or options as an overlay to attempt to maximize trade structure and selection.

### ***Risk Management***

PEAK6 reviews the Funds' overall portfolios on an ongoing basis in an effort to maximize the Funds' returns relative to their risks. PEAK6 utilizes proprietary and vendor risk management software to view risks by any one or a combination of the following: strategy, individual security, industry, sub-industry, option expiration date and market capitalization. PEAK6 portfolio managers utilize software to evaluate the effect of potential movements in the market for their strategy, as well as each position. The software allows for real-time monitoring of potential profit and loss in the Funds' assets. PEAK6 has established specific risk limits and the software attempts to give PEAK6 the ability to identify positions that have moved outside of these parameters so that it may take corrective action. An important element of the Funds' risk management approach is to attempt to create a broad and diverse portfolio. PEAK6 does not attempt to seek neutrality or a one-to-one ratio between long and short positions.

### ***Material Risks of PEAK6's Strategies***

Investing in securities and derivatives involves a risk of loss that investors in the Funds should be prepared to bear. By investing in these Funds, investors are relying on the discretionary, market judgment of PEAK6 trading in a wide range of strategies and markets. The following is a summary of some of the material risks associated with the Funds' strategies. This summary does not attempt to describe all of the risk associated with an investment in the Funds. Although no summary can fully describe all of the risks associated with an investment in the Funds, the offering documents the Funds contain a more complete description of the risks associated with an investment in the Funds.

*Market Risks:* The Funds will derive revenues by purchasing and holding various investment instruments and options that underlie these instruments. These activities expose the Funds' capital to significant risks when the prices of these instruments, including the underlying options, increase and decrease. In any period, the Funds may experience significant losses on transactions due to price fluctuations that result in a decline in the value of instruments owned by the Funds, or increased costs to cover short positions or instruments the Funds have borrowed, sold and expect to repurchase. These losses could have a material adverse effect on the Funds' profits. There is no guarantee that the Funds' investments will outperform the market. In addition, even if the Funds' investments outperform the market, there is no guarantee that the Funds' investments will generate profits because, if the market is negative, the Funds' investments could both outperform the market and generate losses.

*Market Disruption:* The Funds may incur major losses in the event of disrupted markets, and other extraordinary events that may not be consistent with historical pricing relationships on which PEAK6 bases a number of its trading positions. The risk of loss from a disconnect from historical prices is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Funds from their banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Funds. Market disruptions caused by unexpected credit crises, political, military and terrorist events may from time to time cause dramatic losses for the Funds, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.



*Hedging Risks:* Although certain of the Funds' investments are intended, in part, to hedge the Funds' other holdings, there is no guarantee that they will do so to the degree predicted by theory. The Funds will enter into offsetting transactions in related instruments from which it expects to earn profits or hedge exposure to risk. If the value of the positions changes in a direction or manner that PEAK6 has failed to protect against with hedging transactions or if the instruments used in the Funds' hedging transactions are not as "related" as anticipated, the Funds may have an imperfect hedge. Also, the Funds may not be able to maintain a short position in an instrument, in which case the hedge is eliminated. In any of these cases, the Funds may realize significant losses on transactions.

*Dodd-Frank Act; Regulation of the OTC Derivatives Market.* The Dodd-Frank Wall Street Reform and Consumer Protection Act, referred to in this brochure as the "Dodd Frank Act" became law in July 2010. The Dodd-Frank Act contains numerous far reaching reforms to the financial industry including, but not limited to, provisions that comprehensively regulate the OTC derivatives markets for the first time. Many of these reforms require regulatory rulemakings by various governmental authorities that have not yet been completed. It is possible that these rulemakings could impose additional direct or indirect costs on the Funds, limit the types of strategies that the Funds may pursue or adversely impact the desirability of certain classes of investments or the anticipated return on certain investments.

*Derivatives and OTC Risks:* The Funds may make use of various derivative instruments, such as forward contracts, futures contracts, options on the foregoing, and swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in these instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative. In addition, the markets for some derivatives can frequently have limited liquidity, which can make it difficult as well as costly for the Funds to close out positions in order either to realize gains or to limit losses. The Funds intend to purchase and/or sell derivatives that are principal-to-principal or OTC contracts between the Funds and third parties entered into privately, rather than on an established exchange. As a result, the Funds will not be afforded the regulatory protections of an exchange, its clearinghouse or of a government regulator that oversees the exchange or clearinghouse if a counterparty fails to perform. The risk of nonperformance or the lack of financial soundness and creditworthiness of the counterparty can be significant in the case of OTC instruments. Further, prices of derivative instruments are highly volatile. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices. Many derivatives are valued on the basis of dealers pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the Funds be forced to sell such position may be materially different. These differences can result in an overstatement of the Funds' Net Asset Value and may materially adversely affect the Funds in situations in which the Funds are required to sell derivative instruments.

*Identification of Opportunities:* The Funds' trading activities require PEAK6 to continually monitor and analyze market activity, price movements, individual transactions, the Funds' positions and a wide range of other information regarding market demand for particular options. PEAK6 may fail to identify and/or take advantage of profit opportunities and opportunities to hedge the Funds' positions. This may be due to flaws in PEAK6's overall strategy to identify these opportunities or PEAK6's inability to implement that strategy. These failures could have an adverse effect on the Funds' profits.

*Dispersion:* As part of an investment strategy, the Funds may buy and sell exchange-traded funds, or "ETFs," futures and/or index and ETF options to hedge the Funds' other holdings or positions pursuant to a "dispersion" strategy meaning short selling stock index options while simultaneously buying options on the stocks comprising the index. There is a risk that the Funds' holdings or positions may underperform the other holdings or positions to which they relate, which could result in losses.

*Options:* The risks associated with options trading include, but are not limited to, volatile movements in the price of the underlying instrument and misjudgments as to the future prices of the options and/or the underlying instrument. Fluctuations in option volatility can increase both the profit potential and the risk of loss from the Funds' trading. While volatility can be monitored and reacted to, there is no effective means of hedging against market volatility. Selling options creates additional risks. Due to the inherent leveraged nature of options, a relatively small adverse movement in the price of the underlying instrument may result in immediate and substantial losses to the Funds.

*Credit Default Swaps:* The Funds may purchase and sell credit derivatives contracts on a principal-to-principal basis, primarily credit default swaps, for hedging and risk management or speculative investment purposes. When the Funds are the buyer of a credit default swap, the Funds would be entitled to receive the agreed-upon value (or par) of a referenced debt obligation. As consideration, the Funds would pay to the counterparty a periodic stream of fixed payments during the life of the swap if no event of default has occurred, in which case the Funds would receive no benefits under the swap. In circumstances in which the Funds do not own the debt securities that are deliverable under the credit default swap, the Funds are exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so called 'short squeeze'. In some cases in which issuers default or debt is restructured, it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. In either of these cases, the Funds would not be able to realize the full value of the credit default swap upon a default by the entity referenced in the credit default swap. As a seller of credit default swaps, the Funds incur leveraged exposure to the credit of the reference entity and are subject to many of the same risks if they were holding debt securities issued by the reference entity. The Funds will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to the Funds following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Funds.

*Total Return Swaps:* Under a total return swap, the Funds may be required to maintain collateral with the total return swap counterparty. If the Funds fail to fulfill their payment obligations or fail to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Funds may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipt from the counterparty of further total return swap payments.

*Illiquid Securities:* A portion of the Funds' portfolio may consist of securities and other financial instruments which are not actively and widely traded. Consequently, it may be relatively difficult for the Funds to dispose of such investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors. Illiquid securities may also be more difficult to value.

*Leverage:* The Funds employ leverage in the execution of certain investment strategies, both through its borrowings and through leverage typically embedded in its investment in certain derivative instruments. Transactions in options are inherently and substantially leveraged. The use of leverage increases any losses incurred on investments in direct proportion to the degree of leverage employed. The Onshore Trading Subsidiaries are not subject to the customer margin rules of either the Federal Reserve Board or any national securities exchange because it is registered as a broker/dealer with the SEC. The Offshore Trading Subsidiaries may enter into prime brokerage arrangements with prime brokers that make substantial leverage available to it. These arrangements may permit the Trading Subsidiaries to employ leverage to make investments substantially in excess of their equity since the Trading Subsidiaries' borrowing power

is typically greater than that of a typical investor. The Trading Subsidiaries will trade based upon their assumptions regarding the availability of leverage under current margin rules and arrangements. Additional information on leverage can be obtained in the respective funds' offering document. If controlling authorities increase margin requirements or the Trading Subsidiaries are no longer entitled to exemptions from the general margin rules or portfolio margin rules, the Funds may not be able to pursue their objectives and may be required to liquidate positions at inopportune times or at unfavorable prices.

*Investments in Equity Securities:* Equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets legally available after making provision for payment of indebtedness obligations and interest, dividend and any other required payments on more senior securities of the issuer.

*Convertible Arbitrage:* Convertible arbitrage risks include, but are not limited to, the following:

- dramatically rising interest rates or escalating market volatility may adversely affect the relationship between securities;
- convertible securities tend to be significantly less liquid and have wider bid/offer spreads making it more difficult to enter and profitably exit these trades;
- convertible arbitrage involves an inherently imperfect and dynamic hedging relationship and must be adjusted from time to time;
- convertible arbitrage involves selling securities short;
- a material change in the dividend policy of the underlying common equity may adversely affect the prices of the securities involved;
- changes in the issuer's credit rating may adversely affect the prices of the securities involved; and
- unexpected merger or other extraordinary transactions affecting the convertible security or common equity may adversely affect the prices of the securities involved.

*Event Driven Strategies:* Due to the inherently speculative nature of event-driven trading, the results may fluctuate from period to period, and are not expected to correlate with the direction of the equity markets. The Funds' strategy could be to make an investment based on a belief that the event in question will or will not, in fact, occur. The price offered for securities of a company involved in an announced deal will generally be at a significant premium above the market price prior to the announcement, and accordingly the failure of a proposed transaction to close is generally followed by a significant decline in the value of the securities as their market price returns to a level comparable to that which existed prior to the announcement of the transaction. The number of event-driven opportunities available varies greatly and is based on many factors beyond the control of the Funds' portfolio managers. The completion of mergers, tender offers, and exchange offers can be prevented or delayed by a variety of factors, including, without limitation: opposition by the management or stockholders of the target company; intervention of a U.S. federal, state or foreign regulatory agency; efforts by the target company to pursue a "defensive" strategy; in the case of a merger, failure to obtain the necessary stockholder approvals; market conditions resulting in material changes in securities prices; compliance with any applicable U.S. federal, state or foreign securities laws; inability to obtain adequate financing; and material adverse changes in target or acquiring companies.

*Futures Contracts and Options:* The Funds may trade futures and futures options for speculative or hedging purposes. The prices of these contracts are highly volatile. As a result of the low margin deposits normally required in futures trading, a high degree of leverage is typical. Accordingly, a relatively small price movement in a futures contract may result in substantial losses to the Funds. Commodity exchanges limit fluctuations in futures contract prices during a single day. This could prevent the Funds' portfolio managers from promptly liquidating unfavorable positions and subject the Funds to substantial losses.

*Reliance on Corporate Management and Financial Reporting:* Some of the strategies implemented by the Funds rely on the financial information made available by the issuers in which the Funds invest. Neither PEAK6 nor the portfolio managers have the ability to independently verify the financial information disseminated by these issuers; they are dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated material losses can occur as a result of corporate mismanagement, fraud, and accounting irregularities.

*Short Sales:* The Funds generally plan to engage in short selling for hedging and general risk management. Securities sold short must later be replaced or offset by purchases, and therefore any appreciation in the market price of these securities therefore results in a loss. Purchasing securities to close out short positions can itself cause their market price to rise further, thereby increasing losses. Furthermore, in the case of short sales of securities in which the Funds do not hold a long position, the Funds may prematurely be forced to close out a short position if a counterparty demands the return of such borrowed securities. There can be no assurance that the securities necessary to cover a short position will be available for purchase.

*Transaction Volume and Market Liquidity:* A decline in cash flows into the U.S. capital market or a slowdown in investment activity by mutual funds and other institutional and retail investors, as well as other factors, may cause a decline in transaction volumes in the U.S. market places. The Funds' investment activities may be materially affected by the volume of transactions in the U.S. markets. Higher market volume typically provides greater opportunities to engage in revenue-generating transactions. Therefore, a decline in transaction volumes may adversely affect the Funds' profit opportunities. If the liquidity of the market decreases substantially this may result in significant losses on transactions.

*Exchange Rates:* The Funds value their assets in U.S. dollars. Unless the Fund hedges its currency exposure, the value of their underlying assets will fluctuate with U.S. dollar exchange rates as well as with price changes of investments in the various local markets and currencies. An increase in the value of the U.S. dollar compared to the other currencies in which the Funds make investments will therefore reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect.

*Foreign Investments and Emerging Markets:* Non-U.S. investments made by the Funds may involve certain special risks, including, among others: political or economic instability; the unpredictability of international trade patterns; the possibility of foreign governmental actions such as expropriation, nationalization or confiscatory taxation; the imposition or modification of exchange controls; price volatility; the imposition of withholding taxes on dividends, interest and gains or foreign taxes; liquidity in particular instruments, including currencies and sovereign debt; fluctuations in currency exchange rates and exchange control regulations; and differences in financial, accounting, regulatory and legal standards and principles. These risks are particularly acute for investments in emerging markets where regulatory and governmental control of markets is new and untested. Generally, investment in emerging markets involves less publicly available information, more volatile markets, less regulation of the securities

market, less favorable tax consequences, and greater risk of rapid inflation, unstable currency, war and expropriation of assets. In addition, emerging markets typically are not as efficient as more established markets and tend to be less liquid. Accounting practices and financial reporting standards may not be as stringent in emerging markets, which may lead to greater potential for fraud or financial mismanagement.

*Non-Diversification:* Although PEAK6 allocates the Funds' assets among one or any number of different strategies, techniques and products and portfolio managers, the Funds' portfolio may not be diversified among geographic areas, types of securities or a wide range of issuers. Accordingly, the investment portfolio of the Funds may be subject to more rapid change in value than would be the case if the Funds were required to maintain a wide diversification.

*Suspensions of Trading:* Securities exchanges typically have the right to suspend or limit trading in any instrument traded on the exchange. A suspension would render the Funds temporarily or permanently unable to liquidate their positions and could thereby expose the Funds to losses.

*Concerns Regarding the Downgrade of the U.S. Credit Rating and the Sovereign Debt Crisis in Europe:* On August 5, 2011, Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+. While U.S. lawmakers reached agreement to raise the federal debt ceiling on August 2, 2011, the downgrade reflected Standard & Poor's view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. government's medium term debt dynamics. This downgrade could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world and, in turn, the market's anticipation of these impacts could have a material adverse effect on the Fund's financial condition and liquidity. Because of the unprecedented nature of negative credit rating actions with respect to U.S. government obligations, the ultimate impacts on global markets and the Fund's business, financial condition and liquidity are unpredictable and may not be immediately apparent.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain European Union ("EU") member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members. These factors could have an adverse effect on the Fund.

#### **DISCIPLINARY INFORMATION**

Not applicable.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Matthew Hulsizer, Philip Grigus and Donna MacDonald, who are principals of PEAK6, are also associated with several PEAK6 affiliates as described below.

Certain personnel of PEAK6, including, but not limited to Matthew Hulsizer and Jennifer Just, both Co-Founders of PEAK6 LLC, provide administrative, accounting, legal, operations, risk management, and other executive management services to affiliates of PEAK6. Further, both Co-Founder's of PEAK6 LLC are Managers of ALEPH6 LLC, which manages PEAK6 LLC, PEAK6

Investments, PEAK6, and several affiliates, including, but not limited to, PEAK6 Capital Management LLC (“PEAK6 Capital”). PEAK6 Capital is a broker-dealer and member of the Chicago Board Options Exchange, Inc. and other exchanges. PEAK6 Capital trades proprietarily and also acts as an options market maker. Other PEAK6 affiliates include OptionsHouse, LLC, a retail brokerage operation, PEAK6 Opportunities Management LLC, manager to a proprietary investment fund owned by certain partners of PEAK6 Investments’ that focuses on venture capital, private equity investments, and, also PEAK6 Holdings, L.P. which was set up for tax and benefit purposes for certain limited partners.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### ***Code of Ethics***

As an SEC-registered adviser, PEAK6 has adopted a Code of Ethics under SEC Rule 204A-1 that is applicable to all PEAK6 employees. The Code of Ethics contains policies and procedures that, among other things:

- Require employees to observe fiduciary duties owed to clients.
- Prohibit employees from taking personal advantage of opportunities belonging to clients.
- Place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to this trading except for certain types of securities.
- Impose limitations on the giving or receiving of gifts and entertainment.
- Restrict employees’ outside business activities.
- Prohibit disclosure by employees of confidential information relating to PEAK6 and its clients.

The Code defines material and nonpublic information and the restrictions on trading any material nonpublic knowledge and sets forth the responsibilities of all access persons relative to insider trading.

All principals and employees of PEAK6 must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

PEAK6’s Code of Ethics is available to investors and potential investors upon request.

### ***Conflicts of Interest***

In its role as investment advisor to the Funds, PEAK6 and its principals and employees make investment decisions for the Funds. PEAK6 and its principals and employees may trade and invest for their own accounts and/or the accounts of others and such individuals may from time to time have proprietary investments in which the Funds may trade and invest simultaneously and/or may take investment positions that are different from or opposite to the positions taken by the Funds. To address the conflicts of interest posed by this type of trading, PEAK6 maintains the Code of Ethics, as described above. Specifically, the Code requires principals and employees who wish to effect a transaction in any initial public offering or private placement and, with some exceptions, in any publicly traded securities, to first obtain pre-clearance of the transaction from PEAK6’s Chief Investment Officer of the Performance Funds or the Chief Compliance Officer. Additionally, the

Code requires principals and employees to submit initial, quarterly and annual transaction and holding reports.

The offering materials for each of the Fund's contain a more complete description of what PEAK6 believes to be the most significant conflicts of interest associated with an investment in the respective Fund.

*Principal Transactions:* The federal securities laws prohibit an investment adviser from engaging in a principal trade, i.e., a transaction between the adviser or an affiliate and a client, without client consent. As a general rule, PEAK6 does not knowingly engage in principal trades. However, the Trading Subsidiaries may unknowingly trade with affiliates of PEAK6, particularly through automatic execution facilities on various exchanges.

*Mr. Hulsizer's Activities:* In September 2008, Mr. Hulsizer, a Co-Founder of PEAK6 LLC, became a portfolio manager for the Performance Funds. Mr. Hulsizer is primarily responsible for the Performance Funds' hybrid strategy. Mr. Hulsizer is actively involved in setting the overall business plan and strategy of PEAK6 Investments, which indirectly engages in proprietary trading through several affiliated entities. As of the time Mr. Hulsizer began to act as a portfolio manager for the Performance Funds, PEAK6 reduced Mr. Hulsizer's role with respect to proprietary accounts so that he does not make investment decisions for these proprietary accounts except with regard to risk management activities. However, the proprietary trading of PEAK6 Investments creates a conflict of interest because its trading activity may be, and new strategies or business lines that PEAK6 Investments might pursue in the future could be, competitive with the Funds' activities. Furthermore, in situations where the financial markets are experiencing severe volatility or price fluctuations that could reasonably be expected to cause significant losses to PEAK6 Investments and its affiliates, Mr. Hulsizer may take an active role in managing accounts for PEAK6 Investments and its affiliates, as well as other accounts in which he may have a direct or indirect interest, which could pursue trades and investments similar to or the same as those pursued by the Fund, or different or opposite to those pursued by the Funds.

*Other Activities of the Investment Manager; Insider Information:* PEAK6 may manage funds, accounts and the investment activities of other investment vehicles ("Affiliated funds") or accounts in addition to the Funds. Affiliated funds may utilize the same or similar investment strategies, techniques and products as the Funds, and in many circumstances, may compete with the Funds. In the event that the compensation to PEAK6 from these other investment activities is higher than those generated by the Funds, PEAK6 would have financial or other incentives to favor such other accounts over the Funds. Additionally, in connection with investment activities related to affiliated funds or in connection with its other activities, from time to time, PEAK6 or its affiliates may come into possession of material non-public information or other confidential information. In these cases, PEAK6 would be limited in its ability to act upon any such material non-public information or other confidential information, to the extent required by applicable law. As a result, PEAK6 may be prevented from initiating a transaction for the Funds that it otherwise might have initiated or the may be prevented from liquidating an existing open position for the Funds when it otherwise might have done so.

*Allocation of Investment Opportunities; Management Time.* PEAK6 endeavors to act in a manner that it considers fair, reasonable and equitable in allocating investment opportunities to the Funds, but PEAK6 has no specific obligation concerning the allocation of time, effort or investment opportunities to the Funds or any restrictions on the nature or timing of investments for the account of the Funds, other funds or accounts or PEAK6's own account, if any. PEAK6 is not required to accord exclusivity or priority to any client in the event of "limited availability" investment opportunities.

*Competition from Affiliates:* The Trading Subsidiaries primarily make investment decisions utilizing the Trading Technology. Affiliates of PEAK6 also utilize the Trading Technology, and therefore it is possible that such affiliates may be trading in securities in competition with or contrary to the trading decisions made for the Trading Subsidiaries.

### ***Trade Errors***

It is PEAK6's policy to be as careful as possible in making and implementing investment decisions. Unfortunately, however, in the course of carrying out trading and investing responsibilities, PEAK6 will make inevitable "trading errors" in executing specific trading instructions. Examples of trade errors include: buying or selling a security at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy; buying rather than selling a particular security and vice versa; buying or selling securities not authorized by the respective offering documents of the Funds; and buying or selling securities not within the respective Funds' investment objectives or strategies. These errors are inevitable given the high frequency of trading that takes place in normal and ordinary course of business for the Funds. Trade errors are not to be resolved through soft dollar or other reciprocal arrangements with broker-dealers. PEAK6 will treat all trading errors, including those which result in losses and those which result in gains, for the accounts of the Funds, unless they are the result of PEAK6's gross negligence, recklessness or willful misconduct.

### ***Side Letters***

PEAK6 may cause the Funds to accept investments with terms that are different than what the Funds set forth in the respective offering documents. Such arrangements may be memorialized in side letters or similar written agreements with certain investors.

### ***Pricing***

In the event securities prices from independent third parties are unavailable or deemed unreliable for the Funds, we will price securities according to internal pricing procedures. The pricing of these securities can lead to conflicts of interest.

## **BROKERAGE PRACTICES**

In selecting brokers, it is PEAK6's policy to place portfolio transactions with brokers who will execute transactions as efficiently as possible and at the best price. The majority of the trades executed by the Onshore Trading Subsidiaries will be executed without using third party brokers other than to access exchanges. The Offshore Trading Subsidiaries require the use of third party brokers to execute trades, however, no separate fees or brokerage commissions will be charged by or paid to a Trading Subsidiary. Further, where permitted, the Trading Subsidiaries access certain exchanges through the memberships of an affiliated broker-dealer. Accessing certain exchanges via this affiliate is designed to keep execution costs low, reduce commission costs paid, and enhance the speed of execution as compared with executing through other third party brokers. Although substantially all of the Funds' transactions are expected to be executed by the Trading Subsidiaries, PEAK6 may place transactions with other brokerage firms if PEAK6 believes such other firms offer more efficient or better execution or prices. PEAK6 has complete authority over the selection of the broker-dealers used to effect these transactions. In effecting these transactions, PEAK6 will place orders in accordance with its best execution policies, which may take into account a number of factors including, but not limited to:



- the broker's financial responsibility and reputation;
- the broker's commission rates and other transactional charges;
- the broker's stability and responsibility, reputation, reliability and responsiveness to PEAK6;
- the broker's ability to execute trades, willingness to execute difficult transactions, special execution capabilities and efficiency of execution;
- the range and quality of the services made available to PEAK6's clients; and
- the brokers' professional services, including clearance procedures and ability to provide supplemental performance, statistical and other research information for consideration, analysis and evaluation by PEAK6.

Accordingly, transactions will not always be executed at the lowest available price or commission.

When appropriate, under PEAK6's discretionary authority and consistent with its duty to seek best execution, PEAK6 may direct certain trades for the Funds to broker-dealers who provide PEAK6 with brokerage and research products and services including but not limited to broker and third party research as well as opportunities to meet with management of companies. The commissions used to acquire brokerage and research services are known as "soft dollars." PEAK6 will determine in good faith that the amount of commission charged is reasonable in relation to the value of the brokerage, execution, research, sales and other services provided by a broker for the benefit of the Funds, viewed in terms of the particular transaction or PEAK6's overall responsibilities to all of its clients, before directing brokerage business to that broker.

The research services provided by brokers may relate to specific transactions placed with such brokers, but for the most part the research services consist of a wide variety of information useful to PEAK6 in connection with its responsibilities on behalf of the Funds. This material might relate to general economic, interest rate and stock market conditions as well as information on specific companies and industries. PEAK6 will ensure that the soft dollar arrangements made with respect to the Funds comply with the safe harbor for fiduciaries' use of soft dollar services established by Section 28(e) of the Securities Exchange Act of 1934.

Portfolio managers are required to obtain prior written approval from the Chief Investment Officer of the PEAK6 Performance Funds before entering into any soft dollar arrangement or agreement. The Chief Investment Officer of the PEAK6 Performance Funds is authorized to approve soft dollar arrangements for the Funds. The Chief Investment Officer of the PEAK6 Performance Funds will advise the Compliance Department of any new or revised soft dollar arrangements prior to engagement. Upon approval of new or revised uses of soft dollars, the Compliance Department will make a determination if additional disclosure to investors in the Funds is necessary.

When PEAK6 uses brokerage commissions to obtain soft dollar services, it receives a benefit because it does not have to produce or pay for the research, products or service. The use of commissions to pay for research and brokerage services may present PEAK6 with conflicts of interest. PEAK6 may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services rather than the Funds' interest in receiving most favorable execution.

PEAK6 does not take into account the receipt of client referrals when selecting broker-dealers and PEAK6 does not recommend, request, require or permit clients to direct brokerage.

## **REVIEW OF ACCOUNTS**

The Chief Investment Officer of the PEAK6 Performance Funds conducts regular and ongoing reviews of the trading activity of the Trading Subsidiaries to confirm the trading is consistent with stated investment objectives, strategies and restrictions of the Funds.

PEAK6 and/or the administrator for the Funds provide investors in the Funds with monthly unaudited performance updates, periodic performance information, and annual audited financial statements, and income tax reporting information after the end of each calendar year. PEAK6 also may provide investors in the Funds with additional estimated performance information, such as, but not limited to, leverage, capital allocations, risk limits, returns by strategy, and other summary information upon request.

Specific requests for trade activity, positions, or other information will be evaluated by PEAK6. Given that PEAK6 honors reasonable requests for such information from investors in the Funds and prospective investors, some investors in the Funds and prospective investors will possess more information than others and may make investment decisions based on the trade activity, position, or other information provided. In general, if PEAK6 releases such information to investors in the Funds and prospective investors, it will release the same information to any investor in the Funds if requested. However, if PEAK6 does not believe that a request for information is reasonable, it reserves the right to refuse the request.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

PEAK6 does not receive any economic benefit for providing investment advice or advisory services other than from the Funds.

## **CUSTODY**

Under the SEC's rule governing custody of client assets, PEAK6 is deemed to have custody of the securities and other assets of the Funds even though PEAK6 does not physically hold the securities and other assets and these securities and assets are not held or registered in PEAK6's name. PEAK6 is exempt from many of the provisions of the custody rule because the Funds are audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed to each investor in the Funds within 120 of the end of each Fund's fiscal year.

## **INVESTMENT DISCRETION**

Under the governing documents of the Funds, PEAK6 has complete investment authority with respect to all securities owned by the Funds and clients do not place any limits on this authority. This authority is conveyed by investors subscribing to the Funds in their subscription agreements and in the Funds' governing documents. In addition, PEAK6 has authority to direct the trading activities of the Trading Subsidiaries, including determining which securities are bought and sold, the total amount to be bought and sold, which broker or dealer will effect such transactions and the commission rates at which the transactions will be effected.

## **VOTING CLIENT SECURITIES**

PEAK6 has the authority to vote securities held by the Funds. In voting proxies, PEAK6 is guided by general fiduciary principles and PEAK6's goal is to act prudently and solely in the best interests of clients. It is PEAK6's policy generally to vote against any management proposal that PEAK6 believes could prevent the companies from realizing their maximum market value, or would insulate companies and/or management, from accountability to shareholders or prudent regulatory compliance. PEAK6 does not allow the Funds or investors to direct the vote on proxies.

In furtherance of PEAK6's goal to vote proxies in the best interest of the Funds, PEAK6 follows procedures designed to identify and address material conflicts of interest that may arise between PEAK6's own interests and those of the relevant Fund before voting proxies on its behalf. PEAK6 reviews for potential conflicts of interest and determines whether such potential conflict, if any, is material. Where the Chief Investment Officer of the PEAK6 Performance Funds determines that there is the potential for a conflict of interest, the Chief Investment Officer of the PEAK6 Performance Funds will consult with the Chief Compliance Officer and a determination will be made as to whether one or more of the following steps will be taken:

- inform Fund investors of the material conflict and PEAK6's voting decision,
- discuss the proxy vote with Fund investors,
- fully disclose the material facts regarding the conflict and seek the Fund investors' consent to vote the proxy as intended; and/or
- seek the recommendation of an independent third party.

Any employee who has a direct or indirect pecuniary interest in any issue presented for voting, or any relationship with the issuer, must inform the Chief Compliance Officer and recuse him or herself from decisions regarding that proxy vote. Under PEAK6's proxy policy the Chief Investment Officer of the PEAK6 Performance Funds will document the steps taken to evidence that the proxy vote or abstention was in the best interest of the client and not the product of any material conflict, and PEAK6 maintains this documentation.

Investment adviser clients of PEAK6 or investors in the Funds may request a copy of PEAK6's Proxy Voting Policy, as well as relevant proxy voting records by contacting Donna MacDonald, PEAK6's Chief Compliance Officer, at 141 West Jackson Blvd, Suite 500, Chicago, IL 60604.

## **FINANCIAL INFORMATION**

PEAK6 is not aware of any financial condition that could impair its ability to meet its contractual commitments to the Funds.