

Structural Fixed Income LLC

Form ADV, Part 2A — Brochure
June 25, 2012

This brochure provides information about the qualifications and business practices of Structural Fixed Income LLC. If you have any questions about the contents of this brochure, please contact us at (415) 963-4900 or inquiries@structuralinvest.com. 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.

Additional information about Structural is also available on the SEC's website at www.adviserinfo.sec.gov.



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Material changes to this version

This brochure is revised as of June 25, 2012 as an Updating Amendment of Structural's Form ADV. It contains the following material changes:

- Item 4.c.: Structural's assets under management has been updated as of the date of this brochure.
- Item 16: Structural has engaged White Oak Global Advisors LLC ("WOGA") as sub-adviser to perform services for Structural, including portfolio implementation (instrument screening, trade execution, and associated services, in each case utilizing Structural's software and sourcing relationships) and certain client support functions. Subject to these constraints, Structural has delegated its discretionary trading authority to WOGA.

Structural encourages each client to read this brochure carefully and to contact us with any questions. Per SEC Rules, we will provide all clients with a summary of material changes to this brochure once each year and will offer to provide a full copy of the brochure if you request. We may also provide such a summary more frequently as we make material changes and will include in that summary the same offer to provide a full copy of the revised brochure.

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I. Item 4 - Advisory Business

a. Overview

Structural Fixed Income LLC ("Structural" or "we") manages fixed income and cash portfolios on behalf of institutions and individuals. We use technology to systematically construct portfolios of securities and manage them uniquely according to investment parameters defined by each client. Structural is organized as a Delaware limited liability company with headquarters in San Francisco, California and was founded in 2005 by Joel Hornstein and Ed Nicoll.

b. Advisory services

We provide separate account management of fixed income and cash instruments.

We invest only in instruments that enjoy the full faith and credit guarantee of the United States government or that are fully collateralized by such instruments. Specific instruments in which we invest include Treasury bonds, notes, and bills, debt issued by agencies whose obligations enjoy the explicit full faith and credit guarantee of the United States government (e.g., the United States Maritime Administration but not the Federal National Mortgage Association), debt guaranteed by agencies whose obligations enjoy the full faith and credit guarantee of the United States government (e.g., deposits of banks insured by the Federal Deposit Insurance Corporation, provided that each client's exposure to a given bank is below applicable insurance limits), and pre-refunded municipal debt, where funds for redemption are held in escrow and invested in Treasury instruments. Client cash may also be invested in Treasury money market funds (or, for clients whom we serve as sub-advisor, in other types of money market funds, as specified in their agreements with their primary advisor and/or custodian); we charge no fee on these assets.

Each account is managed pursuant to parameters specified by each client. These parameters include, among other things, the term structure of each account, instrument types eligible for (or restricted from) purchase, and required instrument attributes.

Structural does not participate in any wrap fee programs.

c. Assets under management

We managed \$140.2 million in assets on a discretionary basis as of May 14, 2012. Although the management of each account is governed by client-specific investment parameters, our management is considered discretionary by the SEC's definition, which hinges on the advisor's authority to select specific securities for purchase.

As of May 14, 2012 we also advised, on a non-discretionary basis, with respect to \$600 million in assets. We act as sub-advisor with respect to these assets.

d. Ownership

Structural is majority-owned by its co-founder and Chief Investment Officer, Joel Hornstein, both directly and through a holding company of which he is the controlling investor, Structural Management LLC. The remainder of the company is owned by Structural principals Matthew Pollock and David Slusarski and by other employees.

II. Item 5 - Fees and Compensation

a. Management fees

Our annual fees are expressed as a percentage of the value of client assets we manage.

For most instrument types, we charge an annualized fee of 0.25% on assets up to \$10 million, 0.20% on incremental assets above \$10 million up to \$100 million, 0.175% on incremental assets above \$100 million up to \$500 million, and 0.150% on incremental assets above \$500 million. We aggregate all accounts within a client or distributor relationship when applying these break points.

We charge an annualized fee of 0.05% on United States Treasury securities.

We charge no fee on assets held in money market funds.

We waive our fee with respect to individual instruments, basis point (0.01%) for basis point, to the extent that, at the time of purchase, yield to maturity on a given instrument is less than 30 basis points (0.30%) above that of comparable term Treasuries. For example, if we purchase an instrument at a yield to maturity that is 0.20% higher than that provided by comparable term Treasuries, our fee with respect to that instrument would be 0.10% less than that implied by the fee schedule above. This fee waiver does not apply to purchases of Treasury securities or money market funds.

Our fee accrues each business day, defined as days the New York Stock Exchange is open for trading. The fee that accrues each business day is the product of i) the applicable annualized fee, ii) that day's account value, iii) the number of calendar days elapsed since prior business day, and iv) 1/number of calendar days of that year. If the size of a client account exceeds one or more fee breakpoints, the fee for the amount subject to each annualized fee rate is calculated separately pursuant to this formula and the results are added together.

Most clients authorize the custodian to debit our fee directly from the client account and remit to us; this amount is reported on the client statement. For certain accounts we manage as sub-advisor, we send an invoice for our fee, which is then paid from funds outside our management. Clients may select either method of payment.

With the exception of accounts we invoice periodically, fees are payable each business day as they are earned. For administrative convenience and to ensure proper accounting, we in practice do not debit fees each business day. Additionally, so as to minimize transaction costs to our clients, we regularly defer debit of our fee, in full or in part, until instrument redemption or interest provides the cash required to pay our fee. No interest accrues on fees that are payable but that have not yet been debited from a client account.

We charge the same fee schedule to all clients for whom we provide ongoing management functions (i.e., monitoring and, as required, sale or collection of proceeds). We charge an annualized fee of 0.125% of deployed assets with respect to certain accounts we serve as sub-advisor, where our responsibilities relate solely to initial purchase.

b. Custody, brokerage and third party management fees

All client assets are held by an independent custodian. Clients typically pay an additional fee, payable to the custodian, for this service. Some clients will establish a new custody account specifically to hold assets managed by Structural under a pricing agreement that Structural has negotiated. In other cases, clients will direct Structural to manage assets held in an existing custody account. In the latter case the client will pay custody fees according to their agreement with the custodian.

Pending deployment, client funds may be held in a money market fund managed by a third party and may pay management fees, distribution fees and other expenses to this manager. As discussed above, Structural does not charge fees on assets held in money market funds and receives no compensation from the managers of these funds.

Structural has engaged WOGA as sub-adviser to perform certain trading and client support functions where WOGA's greater scale makes it more cost-effective than Structural. Structural compensates WOGA for these fees out of Structural's fee; clients incur no additional cost as a result of this arrangement.

Structural, and WOGA as Structural's sub-adviser, purchase securities from a broad network of brokers and dealers, and directly from issuers. Clients will incur certain costs and/or fees in connection with these transactions. Neither Structural nor WOGA receives any portion of these. We describe our brokerage practices in additional detail in Section IX.

c. Sales compensation

Neither Structural, WOGA, nor any of their respective representatives accept compensation from third parties for the sale of securities or other investment products to or on behalf of Structural clients.

III. Item 6 - Performance-Based Fees and Side-by-Side Management

Structural does not charge performance-based fees.

IV. Item 7 - Types of Clients

Structural serves corporations, municipal entities, endowments, foundations, registered investment advisors, family offices, individuals and high net worth individuals. We do not impose a minimum dollar value of assets for starting or maintaining an account. All client assets are held by a third-party independent custodian and prospective clients must have or must establish a custody account to hold assets managed by Structural. In addition, while Structural works or has worked with a large number of independent custodians, we require that custodians provide certain electronic data feeds necessary for us to effectively manage the account.

Structural reserves the right to not accept and/or to terminate management of a client account if we determine that account size, restrictions, fees or other conditions placed on the account would prevent us from effectively managing the account.

V. Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

a. Methods of analysis

Structural's software platform uses large quantities of instrument-level data to i) screen instruments against firm- and client-specified parameters in order to identify which instruments are eligible for purchase, and determine which eligible instruments to purchase. The large bulk of these data we purchase from an array of third-party vendors or obtain from government databases. Such data includes instrument detail (e.g., instrument issuer, current obligor, maturity date, redemption value, coupon amount and frequency), issuer detail (e.g., FDIC certificate number, IDC ranking as an indicator of bank health), and market data (e.g., US Treasury yield curve for benchmarking purposes).

b. Investment strategies

Structural has developed proprietary software and also uses third party software to construct and manage portfolios according to each client's unique parameters.

Each day and throughout the day, our systems load data describing instruments on offer from our network of brokers, dealers and banks. Our software applies a series of firm- and client-specified

parameters to identify instruments eligible for purchase. These screens include instrument term, instrument type, minimum purchase size, maximum holding size, and minimum yield relative to Treasuries of like term. Certain screens are specific to certain instrument types. We or our sub-adviser purchase all instruments that meet these parameters until a client portfolio is fully implemented.

The majority of instruments purchased on behalf of our clients are held to maturity. Instruments purchased may have remaining term of 1 day up to 20 years. Clients may instruct us to sell or cross instruments either to rebalance their portfolio towards a target term structure or to provide early liquidity, if needed.

c. Risk of loss

Structural invests in instruments guaranteed by the full faith and credit of the US government or collateralized by Treasuries in order to avoid the risk of loss as the result of issuer default. While the risk of default by the US government is not zero, it is considered highly remote.

Investing in fixed income instruments also exposes clients to certain other risks:

- Interest rates may rise in the future causing instrument prices to fall. This may result in a loss if instruments are sold prior to maturity.
- Proceeds from instruments sold prior to maturity may be less than the amount originally invested as a result of transaction costs and/or adverse market conditions. In some cases, clients may not be able to sell instruments prior to maturity or may only be able to sell for a fraction of the original purchase price. While Structural works to provide early liquidity at low cost by crossing amongst our clients or selling at wholesale auction, we cannot guarantee the ability to sell nor the price achieved. We encourage each client to specify a term structure that matches their liquidity needs and does not rely on the ability to sell instruments prior to maturity.
- Clients may bear higher transaction costs and/or generate taxable income that diminishes performance by trading their account more frequently. As discussed above, the majority of instruments we purchase are held to maturity and Structural does not recommend or implement investment strategies that employ frequent portfolio turnover.

VI. Item 9 - Disciplinary Information

The SEC requires registered investment advisors to disclose any legal or disciplinary event that would be material to a client's or prospective client's evaluation of Structural or WOGA or the integrity of either firm's management. Structural, WOGA and each firm's respective employees report no such disciplinary events.

VII. Item 10 - Other Financial Industry Activities and Affiliations

Apart from i) our use of WOGA to more cost-effectively perform certain activities Structural personnel would otherwise perform and ii) our temporary use of money market funds advised by third parties, as described above, from whom we receive no direct or indirect compensation, we do not recommend or select other investment advisers for our clients. Structural selected WOGA to perform certain activities as sub-adviser on the basis of i) the all-in economics WOGA proposed and ii) WOGA's geographic proximity to Structural, which facilitates supervision by Structural. Structural licenses its software to WOGA on the same terms as it offers other investment managers, but has no ownership or (apart from such license) other economic interest in WOGA.

Other than as detailed in the paragraph above, Structural and our employees do not have any outside financial industry activities, affiliations or material relationships with other firms.

VIII. Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

a. Code of ethics

Our firm has adopted a code of ethics that governs our employees' professional conduct. This code emphasizes our commitment to integrity, transparency, and substantive excellence. We are pleased to provide a copy of our code of ethics upon request to any current or prospective client.

b. Participation or interest in client transactions and personal trading

We manage the company's cash balances pursuant to the same processes as we use for our clients external to the company. We may therefore own an instrument we are buying or selling for an external client.

Trade recommendations are generated by our software and systems pursuant to the logic outlined in section IV. Our professionals review trade recommendations only to ensure that our systems are operating as intended. Our investment logic does not consider the identity of each account owner, only the parameters that govern management of each account and (where relevant) the tax basis and purchase date of each holding. Professionals have no opportunity to use their knowledge of our trading and logic to advantage the company at the expense of our clients.

IX. Item 12 - Brokerage Practices

We evaluate which brokers and dealers to use solely on the basis of all-in economics to the client. We receive no products, research or services (other than client trading) from any broker or dealer. Because our sole criterion in vendor selection is all-in economics to our clients, we negotiate with vendors exclusively on that basis. We trade with a large number of dealers, as well as through certain inter-dealer electronic markets. We choose which instruments to purchase without regard to the identity of our counterparty, based solely on conformance to client-specified parameters and best value.

X. Item 13 - Review of Accounts

a. Internal account review

Our software and systems automatically enforce compliance with client investment policy, as reflected in client-specified investment parameters. All potential purchases are screened against these parameters before release for execution. Portfolios are screened daily to confirm ongoing compliance with client-specified parameters. In addition to these automated checks, we (or WOGA as sub-adviser) review all trades prior to execution and again prior to settlement. This review is primarily a byproduct of the manual processes inherent to fixed income trading, but provides an additional check to confirm that our systems are working as intended.

We (or WOGA as sub-adviser) review all accounts at least weekly and review daily accounts that have significant quantities of uninvested cash. Mr. Hornstein, our Chief Investment Officer, reviews all accounts monthly. The primary focus of these reviews is to calibrate minimum yield thresholds based on client parameters and market conditions, so that client accounts are neither invested too quickly, at yields less than could have been achieved through more patient execution, nor too slowly. These

reviews also surface opportunities for further product enhancement, and inform the counsel we provide current and prospective clients about market conditions.

b. Client reporting and reviews

We provide daily reports through our web site, posted the next business day once all transactions have been reconciled with the client's custodian. For infrequently traded instruments, these daily reports may reflect pricing that is not FAS 157 compliant. Month-end reports reflect FAS 157 compliant pricing for all assets, apart from reports that clients have requested be presented on a Held-to-Maturity basis. Clients also receive monthly reports directly from each custodian.

In addition to these standard portfolio reports, we provide more narrowly-focused reports in response to specific client needs. For example, we provide a report on exposure by FDIC certificate to fixed income and cash clients to clients for whom this is of value.

For many clients, these reports are self-explanatory and do not require discussion. Others request regular briefings; typically these are by phone.

XI. Item 14 - Client Referrals

We compensate certain individuals and entities for referring clients. Such referral arrangements are governed by a written agreement that details our obligations and the solicitor's under Advisers Act Rule 206 (4)-3, the "cash solicitation" rule. If a prospective client has been referred by a solicitor, we disclose to the prospective client our referral arrangement, including the solicitor's compensation. Such compensation is typically a function of the revenue we earn from a referred client account in the first year of our service to the client. In addition to cash compensation, certain such solicitors may also be non-controlling investors in Structural, benefitting indirectly as investors from their referrals. Further, such solicitors may also be clients. No client funds are used to compensate solicitors.

XII. Item 15 - Custody

Under Rule 206(4)-2 of the Advisers Act, Structural is deemed to have custody of client funds solely because we have the authority to instruct custodians to debit our fees from client accounts. All client assets are held at an independent qualified custodian. These custodians send electronic and/or paper account statements to clients at minimum once a quarter and may also provide online access to account information. We urge clients to carefully review these statements and to reconcile them with statements provided by Structural.

XIII. Item 16 - Investment Discretion

a. Discretionary authority and limitations

Clients grant Structural the authority to manage their account on a discretionary basis by executing an Investment Management Agreement. This agreement grants Structural the authority to select, and to determine the quantity of securities to be bought or sold for the account. This authority is constrained by client-specified parameters. These determine the instrument types within each asset class we may consider for purchase, and the criteria we use in evaluating whether to buy or sell. Clients may also specify that we not purchase or sell specific instruments. In cases where Structural acts as sub-advisor, the client grants discretionary authority, subject to similar limitations, to the primary advisor, who in turn delegates this authority, bound by the same limitations, to Structural via a Sub-Advisory Agreement. Under its agreement with WOGA as sub-adviser, Structural has delegated this authority to WOGA.

XIV. Item 17 - Voting Client Securities

As specified in our management agreement, Structural and its sub-advisor has the authority to vote client securities but does not have the obligation to exercise these votes. We exercise client votes as we deem appropriate and as we believe to be in our clients' best interests. A client may request our voting policies and procedures and information on how we have voted on behalf of their accounts by contacting us at (415) 963-4900.

Clients may request materials related to proxy votes be sent to them by contacting Structural or their custodian. In these cases Structural will not exercise these votes using our discretion but will either cast votes based on specific instructions from the client or instruct the custodian to contact the client directly for further instructions.

XV. Item 18 - Financial Information

Because Structural does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, we are not required to provide a balance sheet. We do not have any financial commitments that impair our ability to meet contractual and fiduciary obligations to clients and have not been the subject of a bankruptcy proceeding.