



## Acadia Mutual Fund Management LLC

*The Acadia Mutual Funds / Acadia Principal Conservation Fund*

### **Firm Brochure**

(Part 2A of Form ADV)

## **ACADIA MUTUAL FUND MANAGEMENT, LLC**

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This brochure provides you with information about the qualifications, business practices, and nature of advisory services of Acadia Mutual Fund Management, LLC, all of which should be considered before becoming an advisory client of our firm. Please contact Michael Hogue, Chief Compliance Officer, if you have any questions about this brochure.

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

Acadia Mutual Fund Management, LLC. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Registration does not imply and certain level of skill or training. Additional information about our firm is available on the Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 151886.

February 1, 2012



## **Item 2    Material Changes**

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### **Annual Update**

This section of our brochure will reflect the update of any material changes that occur subsequent to the delivery of our firm's brochure.

### **Material Changes since the Last Update**

There have been no material changes to the brochure since the date of the last annual update on June 12, 2011.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at **(212) 671-1111** or by email at: **[compliance@theacadiafunds.com](mailto:compliance@theacadiafunds.com)**



## Item 3 Table of Contents

<b>Item 2</b>	<b>Material Changes.....</b>	<b>i</b>
	Annual Update.....	i
	Material Changes since the Last Update.....	i
	Full Brochure Available.....	i
<b>Item 4</b>	<b>Advisory Business.....</b>	<b>3</b>
A.	Firm Description .....	3
	1. Principal Owners.....	3
B.	Types of Advisory Services .....	3
C.	Tailored Relationships .....	3
D.	Wrap Fee Programs .....	4
E.	Assets Under Management .....	4
<b>Item 5</b>	<b>Fees and Compensation .....</b>	<b>4</b>
A.	Advisory Fees.....	4
B.	Billing Procedures .....	4
C.	Other Fees and Expenses .....	4
<b>Item 6</b>	<b>Performance-Based Fees and Side By Side Management.....</b>	<b>5</b>
A.	Performance-Based Fees .....	5
B.	Side-by Side Management.....	5
<b>Item 7</b>	<b>Types of Clients .....</b>	<b>5</b>
<b>Item 8</b>	<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
A.	Methods of Analysis .....	5
B.	Investment Strategies.....	5
C.	Material Risks of Methods of Analysis and Investment Strategies .....	6
<b>Item 9</b>	<b>Disciplinary Information.....</b>	<b>7</b>
<b>Item 10</b>	<b>Other Financial Industry Activities and Affiliations .....</b>	<b>7</b>
A.	Financial Industry Activities .....	7
B.	Financial Industry Affiliations .....	8
C.	Other Material Relationships.....	8
D.	Other Investment Advisers.....	8
<b>Item 11</b>	<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>8</b>
	Description of Code of Ethics .....	8
<b>Item 12</b>	<b>Brokerage Practices.....</b>	<b>10</b>
A.	Selection and Recommendation.....	10



B.	Order Aggregation .....	11
<b>Item 13</b>	<b>Review of Accounts.....</b>	<b>11</b>
<b>Item 14</b>	<b>Client Referrals and Other Compensation .....</b>	<b>11</b>
A.	Economic Benefits for Advisory Services Rendered.....	11
B.	Compensation for Client Referrals.....	12
<b>Item 15</b>	<b>Custody .....</b>	<b>12</b>
A.	Custodian of Assets.....	12
B.	Account Statements.....	12
<b>Item 16</b>	<b>Investment Discretion .....</b>	<b>12</b>
<b>Item 17</b>	<b>Voting Client Securities .....</b>	<b>12</b>
<b>Item 18</b>	<b>Financial Information .....</b>	<b>13</b>
	<b>Privacy Policy .....</b>	<b>13</b>



## **Item 4 Advisory Business**

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### **A. Firm Description**

Acadia Mutual Funds Management, LLC ("AMFM" or the "Firm"), is an investment management firm registered with the U.S. Securities and Exchange Commission (SEC). AMFM is a Delaware limited liability company that was founded in 2008.

AMFM serves as the investment adviser to The Acadia Mutual Funds (the "Trust"). The Trust is a registered investment company that currently consists of one series, the Acadia Principal Conservation Fund (the "Fund"). Subject to the supervision of the Board of Trustees of the Trust, AMFM is responsible for managing the investment activities of the Fund and other administrative matters.

#### **1. Principal Owners**

AMFM is majority owned by Acadia Asset Management, LLC. And, Acadia Asset Management is majority owned by Eric D Jacobs. Eric D. Jacobs is Chief Executive Officer of the Trust and Portfolio Manager of the Fund.

### **B. Types of Advisory Services**

AMFM serves as investment adviser to the Fund. The Fund's investment objective is to provide current income consistent with the preservation of capital. AMFM provides continual management of the business affairs of the Fund, selects the Fund's investments, and ensures that its investments align with the investment objectives as outlined by the Trust and its Board of Trustees (the "Board").

Prospective investors should refer to the Fund's prospectus and Statement of Additional Information ("SAI") for important information regarding objectives, strategies, risks, fees, and additional disclosures. These documents are available by email request to: [info@theacadiafunds.com](mailto:info@theacadiafunds.com) or may be downloaded from the Fund's website at: [www.theacadiamutualfunds.com](http://www.theacadiamutualfunds.com). **Prior to making investments in the Funds, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment.**

### **C. Tailored Relationships**

AMFM provides investment advisory services to the Funds based on the investment objective of the Fund. AMFM does not provide tailored investment advice to Fund shareholders.



#### **D. Wrap Fee Programs**

AMFM is not currently a participant in, or sponsor of a wrap fee program.

#### **E. Assets Under Management**

AMFM manages \$2,739,607 in Fund's assets on a discretionary basis. This asset under management figure is based on calculations as of February 1, 2012.

### **Item 5 Fees and Compensation**

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#### **A. Advisory Fees**

Pursuant to an Investment Advisory Agreement with the Trust, AMFM for its services will assess a monthly management fee (the, "Management Fee") from the Fund for its advisory services.

The Management Fee:

AMFM will receive a monthly fee, at an annual rate of 0.80% of the average daily net assets of the Fund. The Adviser may periodically waive all or a portion of its advisory fee with respect to the Fund. AMFM has executed an expense limitation agreement with the fund to cap the total expense ratio at 1.45% and as such the adviser fee is being credited back to the Fund. This agreement is in effect until October 30, 2012.

These fees are in addition to other costs associated with operations of the Fund. See Item 5C for information regarding other fees and expenses.

#### **B. Billing Procedures**

The Fund's administrator, Mutual Shareholder Services, debits the advisory fees directly from the Fund.

#### **C. Other Fees and Expenses**

AMFM receives a Management Fee from the Fund. Additionally, the Fund, like other mutual funds, bears other fees and expenses which may vary and will affect the total expense ratio of the Fund, such as various third party service providers including, audit, custodian, legal, printing costs, brokerage fees, commissions, transaction expenses, costs of borrowing money, including interest expenses and extraordinary expenses (such as litigation). These fees are described in the Fund's prospectus.



## **Item 6 Performance-Based Fees and Side By Side Management**

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### **A. Performance-Based Fees**

AMFM does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **B. Side-by Side Management**

AMFM has no side by side management.

## **Item 7 Types of Clients**

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AMFM provides portfolio management services to SEC-registered investment companies, which currently includes only one client, Acadia Mutual Funds, which currently consists of one series – Acadia Principal Conservation Fund.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

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### **A. Methods of Analysis**

AMFM considers a number of factors in selecting fixed income securities for the Fund, including credit quality of the issuer, yield-to-maturity, tax-efficiency, hedging strategies and economic forecasts. AMFM generally attempts to invest Fund assets in levels that ensure FDIC protection. As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments.

### **B. Investment Strategies**

Under normal market conditions, the Fund invests primarily in short-term debt instruments such as demand deposits and certificates of deposit issued by FDIC-insured banks and in U.S. Treasury obligations and repurchase agreements collateralized by U.S. government securities. The Fund may also invest up to 35% of its assets in investment grade corporate debt and trust preferred debt securities. Additionally, the Fund may invest in securities issued by federal agencies or government-sponsored enterprises ("GSE"s). The Fund expects to maintain a dollar-weighted average maturity of between 4 and 10 years. When investing in demand deposits and certificates of deposit, the Adviser generally attempts to invest Fund assets in levels that ensure FDIC protection.



The Fund will normally not invest in fixed income securities which are rated below BBB by S&P or Baa by Moody's at the time of purchase or which are in default. The Fund will not be required to dispose of a debt security if it has a rating of BBB or Baa at the time of purchase but is downgraded below BBB or Baa after the time of purchase. Acadia Mutual Funds Management, LLC, the Fund's investment adviser (the "Adviser"), selects fixed income securities whose yield is sufficiently attractive in view of the risks of ownership. In purchasing and selling securities for the Fund, the Adviser considers a number of factors such as credit quality of the issuer, yield-to-maturity, tax efficiency, hedging strategies and economic forecasts.

### **C. Material Risks of Methods of Analysis and Investment Strategies**

Investing in securities involves risk of loss that clients should be prepared to bear. All investment programs have certain risks that are borne by the investor. Investors face the following types of risks:

*Market Risk:* The Fund's performance will change daily based on many factors, including the quality of the instruments in the Fund's investment portfolio, national and international economic conditions and general market conditions.

*Credit Risk:* The Fund could lose money if the issuer of a fixed income security is unable to meet its financial obligations.

*Interest Rate Risk:* Changes in interest rates will affect the yield and value of the Fund's investments in debt securities. If interest rates rise, the value of the Fund's investments may fall.

**Money Market Deposit Account Risk:** The Fund invests in jumbo money deposit market accounts in FDIC insured banks. There are withdrawal restrictions imposed on money market deposit accounts ranging from 5 to 7 per billing cycle, usually a month creating a liquidity risk. In addition, the amount of the funds invested in a particular institution may exceed the insured limit of \$250,000 creating a exposure to loss if the financial institution fails.

*Government Securities Risk:* There are different types of U.S. government securities with different levels of credit risk. U.S. government securities issued or guaranteed by the U.S. Treasury and/or supported by the full faith and credit of the United States have the lowest risk. A U.S. government-sponsored entity (such as the Federal Home Loan Banks, Federal Farm Credit Banks, Fannie Mae and Freddie Mac), although chartered or sponsored by an Act of Congress, may issue securities that are not funded by



congressional appropriations and are neither guaranteed nor insured by the U.S. Treasury and are riskier than those that are.

*Repurchase Agreement Risk:* The use of repurchase agreements involves certain risks. For example, if the seller of the agreements defaults on its obligation to repurchase the underlying securities at a time when the value of these securities has declined, the Fund may incur a loss upon disposition of the securities. There is also the risk that the seller of the agreement may become insolvent and subject to liquidation.

*Call Risk:* The risk that an issuer, especially during a period of falling interest rates, may redeem a security by repaying it early, which may reduce the Fund's income if the proceeds are reinvested at lower interest rates.

*Returns Are Not Guaranteed:* An investment in the Fund is neither insured nor guaranteed by the U.S. government. Shares of the Fund are not deposits or obligations of, or guaranteed or endorsed by a bank and the shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other agency.

The Fund's Prospectus and Statement of Additional Information ("SAI") describes these risks in more detail and can be obtained free of charge by contacting us at (800) 595-4866 or [www.theacadiamutualfunds.com](http://www.theacadiamutualfunds.com).

## **Item 9    Disciplinary Information**

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of AMFM or the integrity of AMFM's management. AMFM has no information to disclose applicable to this Item.

## **Item 10   Other   Financial   Industry   Activities   and                  Affiliations**

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### **A.   Financial Industry Activities**

AMFM is not a registered broker-dealer and does not have an application pending to register as a broker-dealer. One member of AMFM's management or supervised persons is a registered representative of a broker-dealer.



## **B. Financial Industry Affiliations**

AMFM is not registered as, and does not have pending applications to register as, a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor. Furthermore, none of AMFM's management or supervised persons is registered as, or has applications pending to register as, associated persons of the foregoing entities.

## **C. Other Material Relationships**

As previously noted above, AMFM is adviser to the Trust and its Fund. AMFM is an affiliate of Acadia Asset Management, LLC that manages its proprietary hedge funds.

Nonetheless, AMFM does not have any other arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, other than those already disclosed herein.

## **D. Other Investment Advisers**

Please see Item 10C, AMFM is an affiliate of Acadia Asset Management, LLC.

# **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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## **Description of Code of Ethics**

AMFM's Code of Ethics (the "Code") is adopted in compliance with the requirements of U.S. securities laws applicable to registered investment advisers and registered investment companies. Registered investment advisers are required by Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), to adopt a code of ethics which, among other things, sets forth the standards of business conduct required of their supervised persons and requires those supervised persons to comply with the Federal Securities Laws, as defined below. Similarly, each registered investment company and its adviser and principal underwriter must adopt a code of ethics pursuant to Rule 17j-1 under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust and AMFM are collectively referred to in the Code as "Acadia".

AMFM seeks to foster a reputation for integrity and professionalism. To further that goal we have adopted this Code and implemented policies and procedures to prevent fraudulent, deceptive and manipulative practices and to



ensure compliance with the Federal Securities laws and the fiduciary duties owed to our clients (including the Trust and its shareholders).

As fiduciaries, we have affirmative duties of care, honesty, loyalty and good faith to act in the best interests of our clients. Our clients' interests are paramount and come before our personal interests. Our Access Persons and Supervised Persons, are expected to behave as fiduciaries with respect to our clients. This means that each must render disinterested advice, protect client assets (including nonpublic information about a client or a client's account) and act always in the best interest of our clients. We must also strive to identify and avoid conflicts of interest however, conflicts may arise.

Employees of Acadia must not:

- employ any device, scheme or artifice to defraud a client;
- make to a client any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;
- engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon a client;
- engage in any manipulative practice with respect to a client;
- use their positions, or any investment opportunities presented by virtue of their positions, to their personal advantage or to the detriment of a client; or
- conduct personal trading activities in contravention of the Code or applicable legal principles or in such a manner as may be inconsistent with the duties owed to clients as a fiduciary.

To ensure compliance with these restrictions and the Federal Securities Laws, we have adopted, and agreed to be governed by, the provisions of this Code in addition to the procedures contained in applicable compliance manuals<sup>1</sup>. However, Access Persons and Supervised Persons are expected to comply not merely with the "letter of the law", but with the spirit of the laws, this Code and applicable compliance manuals.

This is a summary of our Code of Ethics; a complete copy of the Code is available upon request by email to: [compliance@acadiaassetmanagement.com](mailto:compliance@acadiaassetmanagement.com).



## **Item 12 Brokerage Practices**

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### **A. Selection and Recommendation**

1. AMFM is responsible for developing and maintaining policies and procedures relative to the broker selection process, consistent with its fiduciary obligation to obtain “best execution” in executing securities transactions on behalf of the Fund. In considering brokers, the Trust prohibits the direct or indirect use of the Fund’s portfolio transactions to compensate any broker or dealer (together, “Brokers”) for any promotion or sale of Fund shares. The Fund may use a selling Broker to execute, clear or settle transactions in Fund portfolio securities only if its selection as a selling Broker is not influenced by considerations about the sale of Fund shares. Neither the Fund nor AMFM, will enter into any agreement or other understanding – whether written or oral – under which brokerage transactions or remuneration generated by those transactions are directed to a Broker in return for distribution of Fund shares. AMFM has the primary responsibility for ensuring the Fund’s compliance with this policy.

AMFM will certify annually to the Trust that: (i) it did not either directly or indirectly consider a Broker’s promotional sales efforts with respect to Fund shares in determining whether to execute Fund portfolio transactions with that Broker; (ii) no person instructed it to consider the sale of Fund shares in selecting Brokers; and (iii) it did not enter into any agreement (oral or written) or other understanding under which the Firm directed, or is expected to direct, Fund portfolio securities transactions to a Broker in consideration for the promotion or sale of Fund shares.

AMFM does not receive any soft dollar benefits.

The Firm’s chief compliance officer will, on a periodic basis, but not less frequently than quarterly, compare each Broker’s transactions in Fund portfolio securities and the direction of brokerage to that Broker in order to determine whether there is any pattern that suggests the existence of either formal or information arrangements to use Fund brokerage to compensate the Broker for selling Fund shares. The Firm will promptly report any suspicious instances of the direction of brokerage to the chief compliance officer.

Purchases and sales of portfolio securities that are fixed income securities (for instance, money market instruments and bonds, notes and bills) usually are principal transactions. In a principal transaction, the party from whom the Fund purchases or to whom the Fund sells is acting on its own behalf (and not as the agent of some other party such as its customers). These securities may be purchased directly from the issuer or from an underwriter or market maker



for the securities. The Fund may, at times, pay brokerage commissions for these securities. In selecting a broker to execute a particular transaction, AMFM takes a variety of factors into consideration, which may include, the best net price available, the commissions or spreads charged, the reliability, expertise, integrity and financial condition of the broker, the ability to access directly the market maker or dealer of the particular security, and the size of the order and the difficulty in executing it.

**2. Brokerage for Client Referrals**

When selecting or recommending broker-dealers to clients, the Firm does not consider whether it receives client referrals from the Broker or other third party.

**3. Directed Brokerage**

The Trust prohibits the direct or indirect use of the Fund's portfolio transactions to compensate any broker or dealer for any promotion or sale of Fund shares.

**B. Order Aggregation**

AMFM does not aggregate sales or purchase orders.

**Item 13 Review of Accounts**

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Eric Jacobs, as portfolio manager of the Fund, is primarily responsible for the day-to-day management of the Fund. Mr. Jacobs has been the portfolio manager of the Fund since its inception. The Fund's portfolio is under continuous review by the portfolio manager. Additional reviews of the Fund's portfolio may be triggered by substantial market fluctuation, economic or political events, or by changes in the Fund's objective.

Quarterly reports regarding the Fund's operations are provided to the Fund's Board of Trustees. [In addition, the Fund's daily and quarterly performance is posted on the Fund's website. The Fund's website also publishes semi-annual reports, audited annual reports and the Prospectus, Summary Prospectus, Statement of Additional Information and Portfolio Holdings.

**Item 14 Client Referrals and Other Compensation**

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**A. Economic Benefits for Advisory Services Rendered**



A. The Firm does not receive an economic benefit (such as sales awards or other prizes) from any third party for providing investment advice or other advisory services to its clients.

B. The Firm does not compensate directly or indirectly any person who is not a supervised person for client referrals.

## **Item 15 Custody**

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### **A. Custodian of Assets**

The Fund's custodian is Huntington National Bank. It holds all securities and cash of the Fund, delivers and receives payment for securities sold, receives and pays for securities purchased, collects income from investments and performs other duties as directed by the Firm. Huntington National Bank has no supervisory function over management of the Fund.

### **B. Account Statements**

The Fund provides shareholders with:

- a confirmation statement after each transaction;
- an account statement reflecting transactions for the calendar quarter;
- an account statement reflecting annual transactions; and
- by February 15 of each year, certain tax information which is also filed with the Internal Revenue Service.

The Fund provides these services without charge, but may charge for special services such as requests for historical transcripts of accounts. In addition, shareholders may view the history of your account on the Administrator's website at [www.mutuals.com](http://www.mutuals.com).

## **Item 16 Investment Discretion**

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Generally, AMFM has complete discretion and authority to make all investment decisions with respect to the types of securities to be bought or sold and the amount of securities to be bought or sold. Notwithstanding the foregoing, all discretionary trades made by AMFM on behalf of the Fund will be in accordance with the Fund's investment objective.

## **Item 17 Voting Client Securities**

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The Trust has delegated proxy voting responsibilities to AMFM, subject to the Board of Trustees' oversight. In delegating proxy responsibilities, the Board



directed that proxies be voted consistent with the Fund's and its shareholders best interests and in compliance with applicable proxy voting rules and regulations. AMFM has adopted its own proxy voting policies and guidelines for this purpose.

If AMFM becomes aware of a material conflict of interest as between the interests of Fund shareholders and the interests of AMFM or its affiliates in how proxies will be voted, it will resolve any concerns by following alternative voting procedures described in AMFM's proxy voting policy.

Information on how the Fund voted or otherwise processed proxies relating to portfolio securities during the most recent twelve-month period ended June 30th of each year will be available after August 31st of each year: (1) without charge, upon request, by calling 1-800-595-4866, and (2) on the Securities and Exchange Commission's (the "SEC") website at <http://www.sec.gov>. The Fund may also consider making proxy voting information available on its website at [www.acadiaassetmanagement.com](http://www.acadiaassetmanagement.com).

## **Item 18 Financial Information**

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Registered investment advisers are required to provide you with certain financial information or disclosures about their financial condition. AMFM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. AMFM has not included a balance sheet because it does not require or solicit prepayment of fees.

## **Privacy Policy**

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AMFM does not disclose nonpublic personal information about its clients or former clients to any persons other than as described below. AMFM collects information about its clients (such a name, address, social security number, assets and income) from discussions with clients, from documents that clients may deliver to AMFM (such as account applications) and in the course of providing services. In order to service its client accounts and effect client transactions, AMFM may provide client personal information to its affiliates and to firms that assist it in servicing client accounts and which have a need for such information. AMFM does not otherwise provide information about its clients to outside firms, organizations or individuals except as required by law. Any party that receives this information will use it only for the services and as allowed by applicable law or regulations, and is not permitted to share or use this information for any other purpose.



- The documents don't say anything explicit, but it seems like the Management Fee comes out before the profit split and that's what we initially discussed with Richard. Eric, does that reflect your understanding?
- As we read it, any time there's a quarter where we're above the waterline, all the excess is paid out to the fund and the Index Value resets to \$5m. Eric, does that sound right?
- Question – the definition of Gross and Net Index Performance include "unrealized gain" when calculating their participation and our coupon. How do these get paid if there's a big unrealized gain for the quarter?

### **Investment Guidelines**

This draft has changes in the Investment Guidelines compared to Eric's agreement:

- Individual positions long or short may not represent greater than 10% of the average daily trading volume of such position. This is new language.
- The maximum long and short exposure is 60%. In Eric's agreement, it was 80% long and 50% short.
- Can only hold companies with market cap above \$500m. It was \$300m in Eric's agreement.
- The account cannot have long or short positions in leveraged ETFs OR in non-equity ETFs. What about VXX, oil, gold, others?
- Can't borrow except to maintain a short position. In Eric's agreement, it was to establish a short position. Not sure why this changed.
- Can't trade options without their prior approval.
- "Daily liquidity" is measured by using "10% of the three (3) month average daily volume per security in our account". In Eric's agreement, it was measured by using "20% of the one (1) month daily average volume..." Does this make a difference to us?

### **Substantive Comments to Documentation**

- Alchemy omitted the name of the prime broker. In Eric's agreement, they specify Pension. Even if they won't specify the prime broker this time, they should let us know



- What's the timing/ turnaround for availability of funds when we get started?
- Trading:
  - Whose trading system are we using?
  - How do we get set up?
  - Who is providing support?
  - How does Alchemy handle communication and oversight
- If not included in the Management Agreement, where will the brokerage account be? Do they anticipate changing the prime broker?
- Why did "integrated account program" (IAP) from Eric's agreement change to "risk managed account platform" (RMA) in this agreement? Is this substantive or just a name-change?
- What else does this Alchemy entity do? What other activities is our money being mixed with?
- Without a separate subaccount, how is Alchemy tracking our performance and allocating payments?

### **Process**

From the documents, here's a broadstrokes summary of how this transaction works. Let me know if something is missing that we should put into the docs.

1. COF (the fund) deposits \$ with Alchemy by wiring it.
2. Alchemy puts \$ into their general account at X prime broker.
3. Alchemy sets up a "notional" account (i.e., for accounting and trading purposes, but not a separate legal account) for CLC at prime broker
4. Jason and Eric trade within that account using Alchemy's system, within Alchemy's investment guidelines
5. At the end of each quarter:
  - THEY LEFT OUT – Alchemy pays CLC an accrued monthly management fee of 2% annualized calculated monthly on the then-current trading account on the 20<sup>th</sup> day of each month.
  - Alchemy tells us the quarterly P/L (Gross Index Performance) and the P/L against the \$5m (Net Index Performance).
  - Alchemy takes 25% of any positive Gross or Net Index Performance (we need to discuss which one with them). CLC does NOT take any performance fee.
  - Alchemy pays any remaining amount from the quarter above the \$5m to COF as a Coupon Amount
6. The Note terminates by notice at any time by either party or automatically 2 years from the start date. If the Net Index Performance is positive:
  - THEY LEFT OUT – Alchemy pays CLC an accrued monthly management fee of 2% annualized based on the then-current trading account on the 20<sup>th</sup> day of each month.
  - Alchemy tells us the pro-rated quarterly P/L (Gross Index Performance) and the P/L against the \$5m (Net Index Performance)
  - Alchemy takes 25% of any positive Gross or Net Index Performance (we need to discuss which one with them). CLC does NOT take any performance fee.
  - Alchemy pays any remaining amount from above the \$5m to COF as a Coupon Amount
  - Alchemy pays the initial deposit back to COF

### **Other Legal Comments**

#### *Management Agreement*

- Reps/Warranties: do we care about having language that their funds are clean, not laundered money?
- Indemnifications: make 5.3 reciprocal; fix typo in 5.2; do we want anything about 3<sup>rd</sup> party suits?
- Alchemy can freely assign this agreement. Do we want any limitations?

#### *Note*

- The Note never says what they are doing with the money.
- We'll need the Exhibit to line up with our final deal points.

#### *Wiring Instructions*

- We need their wiring instructions at some point. May as well ask for it now.



*Matt*

Matt Lane  
Clearlight Capital