



## OpenArc Asset Management, LLC

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### Brochure

February 10, 2011

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**This brochure provides information about the qualifications and business practices of OpenArc Asset Management, LLC (“OpenArc”). If you have any questions about the contents of this brochure, please contact us at (212) 299-8080 or [dreid@openarcam.com](mailto:dreid@openarcam.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Our registration with the SEC does not imply a certain level of skill or training.**

**Additional information about OpenArc also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**OpenArc’s CRD number: 159121.**

**Item 2            Material Changes**

Not Applicable

**Item 3            Table of Contents**

Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	5
Item 6	Performance-Based Fees and Side-by-Side Management	7
Item 7	Types of Clients	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	9
Item 9	Disciplinary Information	18
Item 10	Other Financial Industry Activities and Affiliations	19
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	20
Item 12	Brokerage Practices	21
Item 13	Review of Accounts	22
Item 14	Client Referrals and Other Compensation	23
Item 15	Custody	24
Item 16	Investment Discretion	25
Item 17	Voting Client Securities	26
Item 18	Financial Information	27

## **Item 4            Advisory Business**

OpenArc Asset Management, LLC (“OpenArc” or “we”) is a Delaware Limited Liability Company formed on March 16, 2011. OpenArc’s place of business is in New York, New York. Our Manager’s Committee consists of Jose Dios (Chief Executive Officer), Douglas M. Reid (Chief Operating Officer) and Jonathan E. Sandelman (Chairman). Messrs. Dios and Sandelman are our principal owners.

OpenArc provides advisory services to wealthy families and individuals. These advisory services are broken down into two principal categories: Asset Management and Strategic Advisory.

### **Asset Management**

Our Asset Management services include developing a strategic asset allocation based upon clients’ investment objectives, due diligence on managers across the spectrum of asset classes and investment strategies, selecting managers to implement the allocations we developed, monitoring the investments on an ongoing basis, and providing certain administrative services. As an allocator to managers, we may allocate our clients’ assets across a range of traditional and/or non-traditional investment strategies and managers. We also provide comprehensive reporting services which can incorporate all of the client’s investment and non-investment assets, including those assets that we do not manage for the client.

We provide customized investment advisory services specific to the needs of each client. Ordinarily, a representative of OpenArc will have discussions with each client prior to providing investment advisory services, to jointly develop the clients particular Investment Policy Statement. We allocate each client’s investment assets consistent with his or her customized Investment Policy Statement. Clients may, at any time, impose restrictions on our services

We offer our Asset Management services in two broad categories:

*Total Portfolio Solution* – Allocation and manager selection advice across a client’s total portfolio including both traditional and non-traditional investment strategies and managers.

*Hedge Fund Solution* – Allocation and manager selection advice on a hedge fund only portfolio.

As of January 31, 2012, we had \$637,175 in assets under management on a discretionary basis, and \$61,241,396 in assets under management on a non-discretionary basis.

### **Strategic Advisory**

#### *Portfolio Diagnostics*

We provide comprehensive assessment of a prospective Asset Management client’s existing investment portfolio holdings using analytical tools in conjunction with qualitative experience and operational factors to determine the conclusions. The prospective Asset Management client receives a comprehensive presentation of OpenArc’s conclusions in conjunction with a detailed recommendation and implementation plan to achieve the client’s goals and objective in a timely manner. Upon approval, and engagement as an Asset Management client, OpenArc will implement the recommendations and execute on the approved plan.

## Item 5 Fees and Compensation

### Asset Management

Our annual investment advisory fee for our Asset Management services (Total Portfolio Solution or Hedge Fund Solution) is based upon a percentage of assets placed under our management. Fees may vary based upon the size and nature of each client relationship. Our advisory fee is inclusive of all of our Asset Management services. Our standard annual advisory fee for Asset Management services is 1.00% for a portfolio with a market value of up to \$20 million. However, fees may vary, including under certain circumstances, such as taking into account the complexity of the client assets, aggregate market value of assets, anticipated future additional assets, related accounts, portfolio style, account composition, reports and other factors. OpenArc reserves the right to negotiate fees.

Discounts, not generally available to our Asset Management clients, may be offered to family members or friends of associated persons at OpenArc.

Typically, our annual advisory fee is prorated and payable quarterly, in arrears based on the total market value of the assets under management in a client's account (including unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the quarter. If a new client account is established during a quarter or a client makes an addition to its account during the quarter, the investment advisory fee will be prorated for the number of days remaining in the quarter. If a client's *Investment Management Agreement* is terminated during a quarter, the fee payable to OpenArc will be calculated based on the value of the assets on the termination date and prorated for the number of days during the quarter in which the *Investment Management Agreement* was in effect.

Our standard *Investment Management Agreement* and the custodial/clearing agreement may authorize the client's custodian(s) to debit the client's account for the amount of our advisory fee and to directly remit that advisory fee to us in compliance with regulatory procedures.

Our clients will incur other fees paid to 1) third party asset managers selected by OpenArc, 2) broker-dealers and/or custodians in connection with our management of their assets. We do not receive any portion of these fees. Broker-dealers charge brokerage commissions and/or transaction fees for effecting certain securities transactions (e.g., transaction fees are charged for certain no-load mutual funds, and commissions are charged for individual equity and fixed income securities transactions). Ongoing fees in connection with mutual fund and exchange traded fund purchases are generally imposed at the fund level (e.g., management fees and other fund expenses). Any discounts or rebates that OpenArc is able to negotiate with third party asset managers, broker dealers or custodians will be passed on to the appropriate client(s), in their entirety.

### Strategic Advisory

#### *Portfolio Diagnostics*

Generally we will charge a fixed fee in the range of \$75,000-\$100,000 to perform a Portfolio Diagnostic on an existing investment portfolio of a prospective client of our Asset Management services. However, this fee may vary between clients. Under certain circumstances (e.g., complexity of the client assets), fees may be negotiated. If a Portfolio Diagnostic client ultimately engages

OpenArc for its Asset Management services, the Portfolio Diagnostic fee will be credited against the client's investment advisory fee.

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

OpenArc may receive a performance or incentive fee from its Asset Management clients that have elected for a Hedge Fund Solution, or if otherwise negotiated. We structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Act in accordance with the available exemptions thereunder, including the exemption set forth under Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, OpenArc may include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for OpenArc to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Furthermore, as we may also have clients who do not pay performance-based fees, we may have an incentive to favor accounts that do pay such fees because compensation we may receive from these clients is more directly tied to the performance of their accounts. We have procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

To qualify for a performance-based fee arrangement with OpenArc, a client must either demonstrate a net worth of at least \$2,000,000 (together, in the case of an individual, with assets held jointly with a spouse) or must have at least \$1,000,000 under management with OpenArc immediately after entering into a management agreement.

A client may also be subject to performance-based fees of any kind with respect to third party managers with which the client invests. Such managers are subject to the same kinds of conflicts of interest as described above for OpenArc. To qualify for a performance-based fee arrangement with a third party manager, a client must either demonstrate a net worth of at least \$2,000,000 (together, in the case of an individual, with assets held jointly with a spouse) or must have at least \$1,000,000 under management with that manager.

## **Item 7      Types of Clients**

Our clients generally include, or are expected to include, families and individuals and entities associated with such families and individuals such as trusts, estates, charitable organizations, family partnerships, foundations and other business entities. We generally require a \$20 million per client minimum under our management for Asset Management services; exception to this requires the approval of OpenArc's Manager's Committee. It is our expectation that our client base will be evenly split between clients domiciled in the United States and clients domiciled elsewhere.

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

### Methods of Analysis

In accordance with his or her Investment Policy Statement, we allocate a client's investment assets across individual third party managers within the various investment strategies that, in combination, we believe will achieve the client's designated investment objectives.

Due diligence processes are conducted on managers to address qualitative, quantitative and operational aspects of their business. A manager is assessed according to the specifics of its investment strategy and its stated return and risk objectives. The type of due diligence performed varies according to the investment type and size. OpenArc does not have control over the day-to-day operations of any of the managers that it selects.

### Investment Strategies

We use a wide array investment strategies and managers to create a diversified portfolio of assets in an attempt to produce consistent risk adjusted returns appropriate for a client's Investment Policy Statement. The managers we hire for client portfolios may utilize one or more of the following investment strategies, among others:

#### Equities

- Long-only – multiple approaches, e.g., capitalization focused (e.g., Large, Mid, Small), geographically focused (e.g., US, Global, Emerging Markets), time frame (long term, trading), growth vs. value
- Long/Short – multiple approaches, e.g., capitalization focused (e.g., Large, Mid, Small), geographically focused (e.g., US, Global, Emerging Markets), time frame (long term, trading), growth vs. value

#### Fixed Income

- Long-only – multiple approaches, e.g., tax efficiency (e.g., US Municipals), geographically focused (e.g., Global, Developed Market, Emerging Markets), segment (e.g., Sovereign, Quasi-Sovereign, Corporate), inflation linked (e.g., TIPS, Eurozone)
- Long/Short – multiple approaches, e.g., geographically focused (e.g., Global, Developed Market, Emerging Markets), segment (e.g., Sovereign, Quasi-Sovereign, Corporate), arbitrage

#### Credit

- Long-only – multiple approaches, e.g., credit quality (e.g., Investment Grade, High Yield, Distressed, Multi), geography (US, Global, Eurozone)
- Long/short – multiple approaches, e.g., credit quality (e.g., Investment Grade, High Yield, Distressed, Multi), geography (US, Global, Eurozone)

#### Commodities

- Long-only – multiple approaches, e.g., type (e.g., energy, agricultural, multi)
- Long/short – multiple approaches, e.g., type (e.g., energy, agricultural, multi, arbitrage)

#### Currencies

- Multiple approaches, e.g., time frame (long term, trading), fundamental vs. quantitative

#### Other

- Fund of Hedge Funds
- Global Macro – potential to include a number of the above strategies
- Event Driven – potential to include a number of the above strategies within Equities and Credit
- Convertible Bonds – multiple approaches, e.g., credit vs. volatility, long vs. arbitrage

- Multi-strategy – potential to include a number of the above strategies

Many of these strategies have a high level of inherent risk. See discussion below. In light of these enhanced risks, a client may direct OpenArc not to employ certain strategies for his or her accounts.

### **Risk of Loss**

There are risks associated with allocating client investment assets to managers. Clients could lose all or a substantial portion of their investment. Clients must have the financial ability, sophistication/experience and willingness to bear the risks of such an investment, including principal loss and liquidity restraints. Managers, without limitation, may make investments that are not consistent with their stated risk/return profile, may not follow their own compliance procedures and/or may engage in dishonest acts.

Investing in securities involves risk of loss that clients should be prepared to bear, and a client should not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies we recommend or undertake) will be profitable or achieve any specific performance level(s).

Every investment strategy has its own inherent risks and limitations. Risks associated with the investment strategies that might be pursued by the managers we engage for our clients include the following (this is not intended to be an exhaustive list):

Leverage - Certain managers will seek to enhance returns through the use of leverage, which can be described as exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. Leverage (which for some managers may be significant) magnifies both the favorable and unfavorable effects of price movements in the investments made by a manager, which may subject the managers' investments to substantial risk of loss. If your investment is not made through a limited liability vehicle and uses leverage, your advisory account could lose a greater amount of assets than are in the account and thus subject your other assets to loss.

Investment Selection – Many, if not most, managers will select investments in part on the basis of information and data filed by the issuers of such investments with various government regulators or made directly available to the manager by the issuers of securities or through sources other than the issuers. The managers will not be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information will not be readily available.

A manager will acquire investment assets that have not yet been identified to a client. Accordingly, a client will not have an opportunity to review the terms upon which any assets will be acquired prior to investing with a manager. The likelihood that a client will realize gain depends on the skill and expertise of OpenArc and the managers. Their success cannot be assured.

Equity Securities - The values of the securities held by a manager are subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. The net asset value of a manager's fund will increase and decrease, reflecting fluctuations in the value of the underlying securities held by that fund.

Short Selling - Some of the managers will engage in short selling, both as part of their general

investment strategy and for hedging purposes. Short selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows a manager to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. A manager's obligations under its securities loans will be marked to market daily and collateralized by that manager's assets held at the broker, including its cash balance and its long securities positions. Because securities loans must be marked to market daily, there may be periods when the securities loan must be settled prematurely, and a substantial loss would occur.

Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short selling exposes a manager to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

Debt and Other Income Securities - Many of the managers may invest in fixed-income and adjustable rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

The debt securities in which a manager may invest are not necessarily required to satisfy any minimum credit rating standard and may include instruments that are considered to be of relatively poor standing and have predominantly speculative characteristics with respect to capacity to pay interest and repay principal. A manager may invest in bonds rated lower than investment grade, which may be considered speculative. A manager may also invest a substantial portion of its managed assets in high-risk instruments that are low rated or unrated.

Mortgage-Related Securities - Mortgage-related securities are collateralized by residential or commercial mortgages or pools of residential or commercial mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. These securities may include complex instruments such as collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits, as well as other real estate-related securities. The mortgage-related securities in which a manager invests may include those with fixed, adjustable, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The mortgage-related securities in which a manager invests may also relate to balloon mortgages.

Mortgage-related securities are subject to credit risks associated with the performance of the underlying mortgage properties. In certain instances, the credit risk associated with mortgage-related securities can be reduced by third-party guarantees or other forms of credit support. Improved credit risk does not reduce prepayment risk, which is unrelated to the rating assigned to the mortgage-related security. Prepayment risk can lead to fluctuations in value of the mortgage-related security, which may be pronounced. If a mortgage-related security is purchased at a premium, all or part of the premium may be lost if there is a decline in the market value of the security, whether resulting from changes in interest rates or prepayments on the underlying mortgage collateral. Certain mortgage-related securities that may be purchased by a manager, such as inverse floating rate collateralized mortgage obligations, have coupons that move inversely to a multiple of a specific index, which may result in a form of leverage. As with other interest-bearing securities, the prices of certain mortgage-related securities are inversely affected by changes in interest rates. However, although the value of a mortgage-related security may decline when interest rates rise, the converse is not necessarily true, since in periods of declining interest rates the mortgages underlying the security are more likely to be prepaid. For this and other reasons, a mortgage-related security's stated maturity may be shortened by unscheduled prepayments on the underlying mortgages. Therefore, it is not possible to predict accurately the security's return to a manager. Moreover, with respect to certain stripped mortgage-backed securities, if the underlying mortgage securities experience greater than anticipated prepayments of principal, a manager may fail to fully recoup its initial investment even if the securities are rated in the highest rating category by a rating agency. During periods of rapidly rising interest rates, prepayments of mortgage-related securities may occur at slower than expected rates. Slower prepayments effectively may lengthen a mortgage-related security's expected maturity, which generally would cause the value of such security to fluctuate more widely in response to changes in interest rates.

U.S. Government Securities - U.S. Government Securities include direct obligations of the U.S. Treasury and obligations issued by U.S. government agencies and instrumentalities, including securities that are supported by: (1) the full faith and credit of the United States (*e.g.*, certificates of the Government National Mortgage Association); (2) the right of the issuer to borrow from the U.S. Treasury (*e.g.*, Federal Home Loan Bank securities); (3) the discretionary authority of the U.S. Treasury to lend to the issuer (*e.g.*, Fannie Mae securities); and (4) solely the creditworthiness of the issuer (*e.g.*, Freddie Mac securities). Neither the U.S. Government nor any of its agencies or instrumentalities guarantees the market value of the securities they issue. Therefore, the market value of such securities can be expected to fluctuate in response to changes in interest rates.

Foreign Sovereign Debt - Sovereign debt includes bonds that are issued by foreign governments or their agencies, instrumentalities or political subdivisions or by foreign central banks. Sovereign debt also may be issued by quasi-governmental entities that are owned by foreign governments but are not backed by their full faith and credit or general taxing powers. Investment in sovereign debt involves special risks. The issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal and/or interest when due in accordance with terms of such debt, and a manager may have limited legal recourse in the event of a default because, among other reasons, remedies must be pursued in the courts of the defaulting party. In addition, political conditions, especially a sovereign entity's willingness to meet the terms of its debt obligations, are of considerable significance.

A sovereign debtor's willingness or ability to repay principal and interest due in a timely manner may

be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward principal international lenders and the political constraints to which a sovereign debtor may be subject.

The occurrence of political, social or diplomatic changes in one or more of the countries issuing sovereign debt could adversely affect a Private Fund's investments. Political changes or a deterioration of a country's domestic economy or balance of trade may affect the willingness of countries to service their sovereign debt.

High Yield Securities - Some managers may invest in "high yield" bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Derivatives Risk - Certain managers may invest in derivatives. Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. Managers may use derivatives for any number of purposes including, among other things, as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate or currency risk. A manager's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this section, such as interest rate risk, market risk and credit risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If a manager invests in a derivative instrument, it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that a manager will engage in these transactions to reduce exposure to other risks when that would be beneficial.

Liquidity Risk - A manager's investments may at any given time be illiquid such that either no market exists for them or they are restricted as to their transferability under applicable laws. Thus, the sale of these investments may be made at substantial discounts, delayed or impossible. In addition, the illiquidity of a security or other instrument held by a manager may also make it difficult for the security or instrument to be valued.

Currency Risk - The value of a manager's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred when a manager changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of

supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Non-U.S. Exchanges and Markets - A manager may engage in trading on non-U.S. exchanges and markets. Trading on such exchanges and markets may involve certain risks not applicable to trading on U.S. exchanges and is frequently less regulated. For example, certain of those exchanges may not provide the same assurances of the integrity (financial and otherwise) of the marketplace and its participants, as do U.S. exchanges. There also may be less regulatory oversight and supervision by the exchanges themselves over transactions and participants in such transactions on those exchanges. Some non-U.S. exchanges, in contrast to U.S. exchanges, are “principals’ markets” in which performance is the responsibility only of the individual member with whom the trader has dealt and is not the responsibility of an exchange or clearing association. Furthermore, trading on certain non-U.S. exchanges may be conducted in such a manner that all participants are not afforded an equal opportunity to execute certain trades and may also be subject to a variety of political influences and the possibility of direct government intervention. Investment in non-U.S. markets would also be subject to the risk of fluctuations in the exchange rate between the local currency and the dollar and to the possibility of exchange controls. Foreign brokerage commissions and other fees are also generally higher than in the United States.

Non-U.S. Investment - Investment in non-U.S. issuers or securities principally traded outside the United States may involve certain special risks due to economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive, accounting reporting and disclosure requirements than domestic issuers. The securities of some foreign governments and companies and foreign securities markets are less liquid and at times more volatile than comparable U.S. securities and securities markets. The foregoing risks associated with non-U.S. investments are even greater in emerging markets.

Turnover - A manager’s trading activities may be made on the basis of short-term market considerations. Certain managers’ portfolio turnover rates will be significant, involving substantial brokerage commissions and fees. Each manager will be responsible for the payment of all of the trading expenses incurred in connection with its trading activities, which will ultimately affect the return achieved by the applicable manager.

Futures Contracts and Options on Futures Contracts - In entering into futures contracts and options on futures contracts, there is a credit risk that a counterparty will not be able to meet its obligations to a manager. The counterparty for futures contracts and options on futures contracts traded in the United States and on most foreign futures exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the non-performance by one of its members and, as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members (*i.e.*, some foreign exchanges), it is normally backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing member or

clearinghouse will be able to meet its obligations to a manager.

In addition, under the CEA, futures commission merchants are required to maintain customers' assets on a segregated basis. If a manager engages in futures and options contract trading and the futures commission merchants with whom the manager maintains accounts fail to so segregate the manager's assets or are not required to do so, the manager will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. Even where customers' funds are properly segregated, a manager might be able to recover only a pro rata share of its property pursuant to a distribution of a bankrupt futures commission merchant's assets.

Futures Cash Flow - Futures contracts gains and losses are marked-to-market daily for purposes of determining margin requirements. Option positions generally are not, although short option positions will require additional margin if the market moves against the position. Due to these differences in margin treatment between futures and options, there may be periods in which positions on both sides must be closed down prematurely due to short-term cash flow needs. Were this to occur during an adverse move in the spread or straddle relationships, a substantial loss could occur.

Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract or an option on a futures contract can vary from the previous day's settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, thereby preventing liquidation of unfavorable positions.

Option Transactions - The purchase or sale of an option by a manager involves the payment or receipt of a premium payment and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security or other instrument in excess of the premium payment received.

OTC Transactions - Certain managers may invest in derivative instruments that are not traded on organized exchanges and, as such, are not standardized. These transactions are known as over-the-counter ("OTC") transactions. In general, there is less governmental regulation and supervision in the OTC markets than of transactions entered into on an organized exchange. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with OTC transactions. This exposes a manager to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. In addition, a manager will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy, governmental prohibition or other causes, which could subject the manager to losses.

Convertible Securities - Some of the managers will invest in convertible securities ("Convertibles"), which are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments

and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion and ultimately default risk, as discussed below. Convertibles are also prone to liquidity risk, as demand can dry up periodically and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock.

In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (redeem) the Convertible. An issuer may convert or call a Convertible when it is disadvantageous for a manager, causing that manager to lose an opportunity for gain. For other Convertibles, a manager can choose when to convert the security to common stock or to put (sell) the Convertible back to the issuer.

Because convertible arbitrage also involves the short sale of underlying common stock, the strategy is also subject to stock-borrow risk, which is the risk that a manager will be unable to sustain the short position in the underlying common shares.

Failure of Broker-Dealers - Institutions, such as brokerage firms or banks, may hold certain of a manager's assets in "street name." Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of that manager.

Cash Positions - A portion of assets of a manager may, from time to time, be maintained in cash. Although such a practice may assist in the preservation of capital, the assumption of cash positions may also impact overall investment return. Cash investment practices of a manager may be expected, therefore, to affect total investment performance of that manager.

Future Regulatory Change is Impossible to Predict - The securities and derivatives markets are subject to comprehensive statutes, regulations and margin requirements. In addition, the Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of securities and derivatives and the tax treatment of pooled investment vehicles such as the managers is a rapidly changing area of law and is subject to modification by government and judicial action both inside and outside the United States. The effect of any future regulatory change on the managers is impossible to predict, but could be substantial and adverse.

Start-Up Periods - Managers may encounter start-up periods during which they will incur certain risks relating to the initial investment of newly contributed assets. Moreover, start-up periods also represent a special risk in that the level of diversification of a manager's portfolios may be lower than in a fully committed portfolio.

General Economic Conditions - The success of any trading activity may be affected by general economic conditions, which may affect the level and volatility of securities prices, currency exchange rates, interest rates and the extent and timing of investors' participation in the markets for currencies, securities and other instruments. Unexpected volatility or liquidity in the markets in which any manager directly or indirectly holds positions could impair the manager's ability to carry out its business or cause it to incur losses.

Reliance on Management - OpenArc will invest client assets in the accounts of managers and funds of funds, over which OpenArc may have limited or no control. There can be no assurances that such investments will be successful or will not result in substantial losses.

Compulsory Redemptions - Many, if not most, managers have the right, in their sole discretion, to compulsorily redeem all or part of the interests held by any investor with a manager on short notice (as little as two days) to the investor.

Lack of Liquidity - Managers can impose significant restrictions on an investor's right to redeem all or a part of its interest and pledge or otherwise encumber such interests.

Conflicts of Interest - A manager, in performing its duties, will be subject to potential conflicts of interest. A manager will manage other client accounts at the same time and will be required to allocate limited investment opportunities among all such accounts.

**Item 9      Disciplinary Information**

Not applicable.

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

OpenArc may be deemed to be under common control with Mercer Park LP (“Mercer Park”), a registered investment adviser. Jonathan E. Sandelman is Mercer Park’s Chief Executive Officer and also one of its principal owners. Additional information about Mercer Park is available on the United States Securities and Exchange Commission’s (“SEC”) website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Mercer Park has SEC Registration No. 801-71686 and CRD No. 153884.

Mercer Park serves as the investment adviser to various private investment funds and managed accounts. The private investment funds for which Mercer Park serves as adviser cater to institutional and corporate investors, including ERISA plans, and limited number of high net worth individuals.

OpenArc may recommend one or more private investment funds advised by Mercer Park to its clients. In order to mitigate this conflict of interest, we would disclose to each client the costs, benefits and implications of using a Mercer Park advised private investment vehicle and/or managed account with respect to a client’s investment objectives. We only recommend an investment when we view it as appropriate for the client. No client would be under any obligation to invest in the Mercer Park advised private investment vehicles and/or managed accounts. Our Chief Compliance Officer, Douglas Reid, remains available to address any questions regarding this potential conflict of interest.

OpenArc does not receive compensation directly or indirectly from other investment advisers including Mercer Park.

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

We have adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act, which establishes a standard of business conduct for all of our employees and owners based upon fundamental principles of openness, integrity, honesty and transparency. Our Code of Ethics includes provisions related to fiduciary responsibilities for clients, the confidentiality of client information, the prohibition of insider trading, and personal securities transactions, among other things. All of our employees and owners must acknowledge the terms of the Code of Ethics annually, and whenever they are amended.

We and/or our representatives may buy or sell securities that we also recommend to clients. This practice may create a situation where we and/or our representatives may be in a position to benefit from the sale or purchase of those securities. We have a personal securities transaction policy in place to mitigate any potential conflict of interest and monitor the personal securities transactions and securities holdings of each of our “Access Persons,” which include all of our owners and employees who have access to information about client securities holdings or recommendations. The policy is designed to detect activities that may violate our Code of Ethics, such as: insider trading, “front-running” (*i.e.*, personal trades executed prior to those of our clients), “scalping” (*i.e.*, a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) and other potentially abusive practices.

Our securities transaction policy requires that our Access Persons provide our Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide our Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date we select. Access Persons provide our Chief Compliance Officer or his/her designee with transaction reports for their securities holdings quarterly. In addition, our Chief Compliance Officer or his/her designee must approve all reportable personal security transactions prior to execution.

Our clients and prospective clients may request a copy of our Code of Ethics by contacting Douglas Reid at the address listed on the cover page of this Brochure.

## Item 12 Brokerage Practices

We may recommend a broker-dealer/custodian to a client for execution and/or custodial services upon the client's request. Clients are welcome to direct us to use any custodian or broker-dealer and we can work with virtually any custodian. Factors that we consider in recommending a broker-dealer/custodian to clients include pricing, historical relationship with us, financial strength, reputation, execution capabilities, research, and service. If we have negotiated a discounted commission transaction fee schedule with our recommended broker-dealers and custodians for the benefit of our clients, and will provide such fee schedule to all applicable clients. Prior to engaging us to provide investment management services, the client will be required to enter into a formal *Investment Management Agreement* with us setting forth the terms and conditions under which we will manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Although it is not a consideration that we give much weight to when determining whether to recommend that a client use a particular broker-dealer/custodian, we may receive from a broker-dealer/custodian without cost (or at a discount), support services and/or products which help us to better monitor and service client accounts maintained at such institution. Some of these support services assist us in managing and developing our business. Included within the support services that we may obtain are investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, consulting services, invitations to conferences, meetings, and other educational and/or social events, providing speakers for client seminars, marketing support, computer hardware and software and/or other products that we use to further our investment advisory business operations.

Our clients do not pay more for investment transactions effected and/or assets maintained at such broker-dealers as a result of this arrangement. We do not make any corresponding commitment to a broker-dealer or anyone else to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

Our Chief Compliance Officer, Douglas Reid, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

We may receive referrals from broker-dealers but we do not refer brokerage to the broker-dealer in exchange, or other benefits other than as disclosed to the prospective client in an appropriate solicitation document. We do not engage in directed brokerage arrangements. To the extent that we provide investment management services to our clients, the transactions for each client account generally will be effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may (but are not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. We do not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13    Review of Accounts**

For those clients to whom we provide investment advisory services, account reviews are conducted on at least a quarterly basis by our Portfolio Managers and designated representatives under the supervision of OpenArc's Investment Committee. All clients should advise us of any changes in their investment objectives and/or financial situation and are encouraged to comprehensively review investment objectives and account performance with us. We may conduct account reviews other than on a periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, a market shift or a client request.

Clients are provided with transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian for the client accounts. We also provide investment advisory clients with a written statement report no less frequently than quarterly, unless otherwise mutually agreed upon summarizing account holdings and activity. We hold in person or telephonic reviews with clients as frequently as each client requests but we generally plan to do so no less frequently than annually.

#### **Item 14    Client Referrals and Other Compensation**

If a client is introduced to us by a solicitor, we and/or our affiliates may pay that solicitor a referral fee in accordance with the requirements of the Advisers Act and any corresponding state securities law requirements. Any such referral fee will be paid solely by us or our affiliates, and will not result in any additional charge to the client. If a prospective client is introduced to us by an unaffiliated solicitor, we require the solicitor to provide a written disclosure statement to the prospective client with respect to the nature of the solicitor's relationship with us, including the compensation to be received by the solicitor from us and our affiliates, and to provide the prospective client with a copy of this Brochure.

## Item 15 Custody

We seek to structure our advisory arrangements so as not to have “custody” for purposes of the Advisers Act’s rules.

Our clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for their accounts. Clients are strongly urged to carefully review those confirmations and statements. We also provide our investment advisory clients with a statement report no less frequently than quarterly, unless otherwise mutually agreed upon, summarizing their account holdings and activity. To the extent that we provide clients with periodic account statements or reports, the client is strongly encouraged to compare any statement or report provided by us with the account statements received from the account custodian.

## Item 16 Investment Discretion

A client can elect to engage us to provide investment advisory services on a discretionary or a nondiscretionary basis. In cases where we receive discretionary authority, we exercise that discretion in a manner consistent with the stated investment objectives for the particular client account. Prior to our assuming discretionary authority over a client's account, the client is required to execute an *Investment Management Agreement*, granting us authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name in the discretionary account. Clients who engage us on a discretionary basis may, at any time, impose restrictions, in writing, on our discretionary authority. (e.g., limit the types/amounts of particular securities purchased for their account, limit or proscribe our use of margin, etc.).

Clients who engage us on a non-discretionary investment advisory basis must be willing to accept that we cannot effect any account transactions without obtaining the client's prior consent. Thus, in the event of a market correction during which the client is unavailable, we will be unable to effect any account transactions (as we would for our discretionary clients) without first obtaining the client's consent.

No person who is not identified to a client as a Portfolio Manager will be authorized to formulate investment advice for a client or have discretionary authority over a client's assets.

## Item 17 Voting Client Securities

We are responsible for voting securities held in client accounts unless the client directs us otherwise. We consider it to be our fiduciary duty to preserve and protect our clients' assets including voting proxies for our clients' exclusive benefit. We vote proxies in accordance with our Proxy Voting Policy, a copy of which is available from our Chief Compliance Officer upon request. In the event that we determine that a material conflict of interest exists, one or more methods may be used to resolve the conflict, including:

- disclosure of the conflict to the client and obtaining their consent before voting;
- engaging a third party to recommend a vote with respect to the proxy based on application of the policies set forth within our Compliance Manual;
- abstain from voting the proxy; or
- such other method as is deemed appropriate under the circumstances given the nature of the conflict.

A conflict of interest will be considered material to the extent that it is determined that such conflict has the potential to influence our decision-making in voting the proxy. A conflict of interest shall be deemed material in the event that the issuer that is the subject of the proxy or any executive officer of that issuer has a personal relationship, significant client relationship (*i.e.*, accounting for greater than 5% of annual revenues) or special circumstances that may arise during the conduct of OpenArc's business. All other materiality determinations will be based on an assessment of the particular facts and circumstances. Our Chief Compliance Officer shall maintain a written record of all materiality determinations.

However, the client maintains exclusive responsibility for all legal proceedings and other similar types of events pertaining to his or her account assets, including, but not limited to, class action lawsuits.

We monitor corporate actions of individual issuers and investment companies consistent with our fiduciary duty to vote proxies in the best interests of our clients. With respect to individual issuers, we may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), we may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. We maintain records pertaining to our proxy voting as required under the Advisers Act. Information pertaining to how we voted on any specific proxy issue is available upon written request addressed to our Chief Compliance Officer, Douglas Reid.

**Item 18    Financial Information**

We are unaware of any financial condition that is reasonably likely to impair our ability to meet our contractual and fiduciary commitments to our clients, and we have not been the subject of a bankruptcy petition.