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# COVEPOINT CAPITAL ADVISORS LLC

## PART 2A OF FORM ADV -THE BROCHURE

Date of Brochure: March 8th, 2013

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This brochure provides information about the qualifications and business practices of Covepoint Capital Advisors LLC ("Adviser" or "Covepoint"). If you have any questions about the contents of this brochure, please contact us at (212) 782-3600. This information has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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Item 2:

**MATERIAL CHANGES**

The following summary only discloses material changes made to the *brochure* since the Adviser's last annual update, which was filed on February 15th, 2012:

The Adviser registered as a commodity pool operator with the United States Commodity Futures Trading Commission as of January 1, 2013.

Item 3:

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Item 4:

**ADVISORY BUSINESS**

Covepoint is an investment adviser with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser on July 1<sup>st</sup> 2008. Ms. Melissa Ko owns a controlling interest in the Adviser and is responsible for directing investments in conjunction with a team of investment professionals.

The Adviser provides discretionary investment management services to private funds, based on specific investment objectives and strategies. Under certain circumstances, the Adviser may agree to tailor advisory services to the individual needs of clients.

As of December 31<sup>st</sup> 2012, the Adviser had approximately \$242m client assets under management, 100% of which is managed on a discretionary basis.

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Item 5:

## **FEES AND COMPENSATION**

Full details of relevant fees charged and the process in which they are paid are contained within the relevant fund offering documents and/or investment management agreement.

### **Payment of Fees**

The Adviser may invoice the client for payment of fees or deduct the fee from a client's account by instructing the client's custodian. The specific manner in which fees are charged and paid to the Adviser is defined within the relevant fund offering document and/or investment management agreement. The Adviser deducts client accounts and bills clients for investment management fees monthly and quarterly.

### **Other Fees and Expenses**

In addition to paying investment management fees and, if applicable, performance-based fees or other compensation, client accounts will also be subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees (including investment advisory and other fees charged by investment advisors or funds in which the client account invests) associated with products or services that may be necessary or incidental to such investments or accounts.

Client assets are invested in pooled investment vehicles. In these cases, clients will bear their pro rata share of the underlying fund's operating and other expenses including, in addition to those listed above: sales expenses, legal expenses; external accounting, audit and tax preparation expenses; and organizational expenses.

Client assets may be invested in master funds, money market mutual funds, ETFs or other registered investment companies. In these cases, the client will bear its pro rata share of the investment management fee and other fees of the fund, which are in addition to the investment management fee paid to the Adviser.

Item 6:

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser or its affiliate is entitled to be paid performance-based compensation by its private pooled investment vehicle clients and certain other client accounts.

In addition, certain client accounts may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. When the Adviser and its investment personnel manage more than one client account a potential exists for one client account to be favored over another client account. The Adviser and its investment personnel have a greater incentive to favor client accounts that pay the Adviser (and indirectly the portfolio manager) higher fees.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities.

The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on asset size, client's investment objective and strategies,

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client's risk profile, client's tax status, any restrictions placed on a client's portfolio by the client or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended), total portfolio invested in a position, nature of the security to be allocated, size of available position, supply or demand for a security at a given price level, current market conditions, timing of cash flows and account liquidity, any other information determined to be relevant to the fair allocation of securities and require that, to the extent orders are aggregated, the client orders are price-averaged. Transactions involving fewer than 1,000 shares will be allocated in any manner deemed appropriate by the Adviser under the circumstances.

Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by Mark Strachan, the Adviser's Chief Compliance Officer (the "Chief Compliance Officer").

Item 7:

**TYPES OF CLIENTS**

The Adviser's clients consist of various private funds. The Adviser generally requires that a client invest a minimum of \$1,000,000 to open an account and to maintain a minimum account size of \$50,000,000 for separate accounts. If the account size falls below the minimum requirement due to market fluctuations only, a client will not be required to invest additional funds with the Adviser to meet the minimum account size.

With respect to any client that is a pooled investment vehicle, any initial and additional subscription minimums are disclosed in the fund offering memorandum for the pooled investment vehicle.

Item 8:

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

The Adviser manages its investment portfolios with the principal investment objective of generating positive risk-adjusted absolute returns.

It seeks to achieve its investment objective by employing a fundamentally based investment strategy with a particular focus on the points of intersection between developed and emerging economies. In generating investment ideas, the Adviser relies on a broad range of proprietary macroeconomic indicators, as well as comprehensive surveys of sell-side and buy-side research, contact with policy makers, and onsite travel.

Once an idea is generated, the portfolio management team conducts extensive research on the optimal expression of that idea. It evaluates the robustness of the idea, the extent to which it is "over- or underpriced" by the broader market consensus, and its correlation with other elements of the portfolio. The portfolio management team then seeks to determine the optimal execution of the idea, whether in cash or derivatives markets, to best profit from prevailing market conditions. Considerations of liquidity are paramount in determining the expression of any idea. Position sizing depends on liquidity, volatility, conviction, the expected return of the trade and its expected horizon, and is subject to the relevant Fund's portfolio limits as defined within the relevant fund offering document and/or investment management agreement.

Investments and trading are primarily made in emerging and developed market currencies, equities, sovereign debt instruments and their related options and derivatives.

In managing its investment portfolios, the Adviser may employ the following investment strategies. The mix of these strategies may vary depending on the assessment of market conditions and opportunity set.

- Directional trading
- Relative value trading

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- Short-term opportunistic trading

Depending on its assessment of market conditions, the Adviser may adjust the overall exposure, as well as the exposure among the strategies outlined above. The Adviser may also overlay these strategies to optimize its risk-reward profile, for example, capitalizing on short-term trading opportunities that may arise around a core directional view.

Investing in securities and other financial instruments involves risk of loss that clients should be prepared to bear. Those risks may vary based on the nature and attributes of the relevant investment approach and the specific securities and other instruments held. For information on the risks associated with a particular investment approach, as well as the types of investments it may hold, please contact the Adviser.

### **Material Risks**

The Adviser may employ a number of different investment strategies and techniques within each investment portfolio. Specific reference to the strategies and techniques employed within each portfolio and their associated risks are detailed in the relevant fund offering document and/or investment management agreement.

Following are a list of the material risks associated with the above investment strategies and financial instruments generally utilized by the Adviser. This list is not complete and a complete list of the risks associated with each particular investment strategy is included in the relevant fund offering document. This document and said risks should be studied prior to investment.

#### Leverage

The Adviser may invest on a highly leveraged basis (assets may be leveraged to approximately 7.5 times the net asset value of the portfolio, calculated on a gross exposure basis (although the amount of leverage may at times exceed this level)). The more leverage is employed, the more likely a substantial change may occur in the value of the portfolio. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent leverage is utilized. The cumulative effect of the use of leverage with respect to any investments in a market that moves adversely to such investments could result in a substantial loss which would be greater than if the investments were not leveraged. In addition, trading on margin may result in interest charges to the portfolio.

In an unsettled credit environment, the Adviser may find it difficult or impossible to obtain leverage for the portfolio. In such event, the portfolio could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the Adviser being forced to unwind the portfolio's positions quickly and at prices below what the Adviser deems to be fair value for such positions.

#### Broad Discretion of Adviser; Potential Lack of Diversification

There are no restrictions on the investment discretion of the Adviser. Accordingly, the Adviser is not absolutely restricted from investing a large portion of the assets of the portfolio in any one sector or investment.

#### Directional Trading

Certain of the positions taken by the portfolio are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, may often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

#### Relative Value Trading Risks

The success of relative value strategies is dependent on the Adviser's ability to exploit relative mispricing among interrelated instruments. Although relative value positions are considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricing, even if correctly identified, may not converge within the time

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frame within which the portfolio maintains its positions. Even true “riskless” arbitrage—which is rare—can result in significant losses if the arbitrage is not able to be sustained (due, for example, to margin calls) until expiration, and few, if any, of the portfolio’s positions may constitute true arbitrage as opposed to relative value trades. The portfolio’s relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force the portfolio prematurely to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies.

A major component of relative value trading involves spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss may occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably and, due to the leveraged nature of the portfolio’s trading, result in increased losses.

#### Hybrid and Other Strategies

Many of the strategies executed by the Adviser combine elements of more than one of the foregoing general strategy types. Often, in the course of implementing a particular strategy an opportunistic trade representing a different trading approach may be made. For example, in seeking to exploit a relatively mispriced pair of assets, the Adviser may conclude that an asset is sufficiently over- or underpriced to merit taking an outright directional position.

#### Emerging Market Currencies and Securities Involve Substantial Risks

The Adviser may invest its assets in the currencies and securities (or instruments relating thereto) of developing countries or in countries with new or developing capital markets. The portfolio may also invest its assets in the currencies and securities (or instruments relating thereto) of developed countries. The value of Emerging Market currencies and securities may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the portfolio, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments.

Many of the countries in which the portfolio may be investing have experienced such political, economic and/or social instability. Many such countries have also experienced dramatic swings in the value of their national currency. There can be no assurance that such instability or such fluctuations may not occur in the future and, if they do occur, that they may not have a substantial adverse effect on the performance of the portfolio.

The economies of many of the Emerging Market countries are still in the early stages of modern development and are subject to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions having sudden and widespread effects. Also, many Emerging Market country economies have a high dependence on a small group of markets or even a single market.

Many Emerging Market countries lack a strong infrastructure. Telecommunications generally are poor, and banks and other financial systems are not well developed or well regulated. Many countries have a limited supply of domestic savings, and businesses can experience difficulty in obtaining working capital. They may also have considerable external debt, which affects the proper function of their economies with a corresponding adverse impact on the performance of their markets. The frequent lack of a fair and economically-rational tax regime presents the attendant risk of sudden imposition of arbitrary or onerous taxes, which could adversely affect foreign investors.

Emerging Market countries tend to have periods of high inflation and high interest rates as well as substantial volatility in interest rates, which could affect the portfolio adversely.

The currencies and securities purchased by, and the instruments relating thereto entered into by, the portfolio may lack a liquid trading market, which may result in the inability of the portfolio to sell such security or currency or to close out a transaction, thereby forcing the portfolio to incur potentially, unlimited losses.

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In certain cases the structures used to make trades in Emerging Market currencies and securities may be complex, entail significant counterparty exposure and/or not comply (or not clearly comply) with local law, even if such structures are commonly utilized in such jurisdictions.

Accounting, auditing and financial reporting standards in Emerging Market countries are generally not equivalent to those applicable in more developed countries and in some countries may be of virtually no assistance to an investor. The availability, quality and reliability of information and research (including official data) relating to Emerging Markets, the relevant government or corporate entities and general economic indicators, are likely to be lower than that in respect of investments in developed markets. Obligations on companies in Emerging Markets to publish financial information may also be limited.

Foreign investment in the Emerging Market countries is in some cases restricted. Many of these countries have non-convertible currencies and the value of investments may be affected by fluctuation in available currency rates and exchange control regulations. The remittance of profits may therefore be restricted, and the portfolio may need to utilize swaps, participation agreements, loans, and other indirect investment techniques to access markets and remit profits. Moreover, the banking systems in these countries are not as developed as their Western counterparts and considerable delays may occur in the transfer of funds within, and the remittance of monies out of, these countries.

There are certain risks associated with the fact that there is a history of retrospective application of tax and other laws and regulations in many Emerging Markets, that tax and other laws and regulations in many Emerging Markets are poorly drafted, highly interpretative and may be unpublished or not widely distributed, that the tax treatment of gains and losses on derivative contracts and other investments may not yet be developed and that enforcement of tax and other laws may be unpredictable and arbitrary.

Equity securities, whether in U.S. or foreign companies, involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. There are no absolute restrictions in regard to the size or operating experience of the companies in which the portfolio may invest. In addition, relatively small companies in which the portfolio may invest may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth and companies with new products or services could sustain significant losses if projected markets do not materialize.

Laws in certain Emerging Market countries regulating ownership and corporate governance of domestic companies (for example, requiring the disclosure of a significant stock purchase or a majority shareholder to make a general offer to shareholders) may not exist or may confer little protection on minority shareholders. Disclosure and reporting requirements in general, from annual and quarterly reports to prospectus contents and delivery requirements, range from minimal to non-existent. Anti-fraud and anti-insider trading legislation is generally rudimentary. There may be no prohibitions or restrictions under local laws on the ability of management to terminate existing business operations, sell or otherwise dispose of their company's assets, or otherwise to materially affect the value of the company without the consent of its shareholders. Anti-dilution protection may also be very limited. There is generally no concept of any fiduciary duty on the part of the management or the directors to the company or the shareholders as a whole. Redress for violations of shareholder rights may be difficult in the absence of a system of derivative or class action litigation.

#### Currency and Securities Markets in Emerging Market Countries

The Adviser may purchase and sell currencies and securities and instruments relating thereto through the facilities of exchanges and markets located in Emerging Markets and may be required to effect such transactions through an account with a broker that is a member of such exchanges. Such securities exchanges and their member firms are not generally subject to any significant level of regulation. There can also be no assurance that such rules as may apply will be enforced at all or in a non-arbitrary manner. Clearing and settlement procedures on exchanges located in Emerging Market countries may be quite different from the procedures applicable in more developed countries, and it is possible that such procedures may lead to delays in settling transactions. Such delays could cause the Adviser to miss profit opportunities or to incur losses. In addition, it is possible that clearing and settlement mechanisms could fail or brokerage firms could fail, causing losses to the portfolio. Costs for

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transactions on Emerging Markets are generally higher (possibly significantly higher) than comparable costs on developed markets and might also include the cost of obtaining a foreign currency. Additional risks of investing in securities in Emerging Markets involve (a) lack of liquidity and price volatility, (b) restrictive national policies on investments in certain industries, (c) expropriation, nationalization and confiscatory taxation actions, (d) political, social and financial instabilities and (e) fluctuations in the exchange rate between the U.S. dollar and the currencies in the Emerging Markets.

#### Currency Exchange Rate Risks

The Adviser will be subject to currency market risks associated with fluctuations in the value of the currencies of the countries in which it invests. Many Emerging Markets and certain developed markets have experienced dramatic fluctuations in the value of their currency and similar fluctuations could have an adverse impact on the profitability of the portfolio.

#### Sovereign Debt

The Adviser may invest in sovereign debt securities issued or guaranteed by foreign government entities. Investment in sovereign debt involves a high degree of risk. The government entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A government entity'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 government entity's policy towards the International Monetary Fund and the political constraints to which a government entity may be subject. Government entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and other international organizations to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the government entity, which may further impair such debtor's ability or willingness to timely service its debts. Consequently, government entities may default on their sovereign debt.

Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to government entities. In the event of a default by a government entity, there may be few or no effective legal remedies for collecting on such debt.

#### **Certain Instruments Traded**

##### Forward Contracts

The Adviser may enter into forward contracts for currencies and interest rates, through United States and foreign banks and currency dealers. A forward contract is a contractual obligation to buy or sell a specified quantity of a commodity or currency at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract. Forward contracts are not traded through exchanges and their clearinghouses. Banks and dealers act as principals in such markets. Banking authorities and other governmental authorities generally do not regulate trading in forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls by governmental authorities may limit such forward trading to less than that which the Adviser would otherwise desire, to the possible detriment of the portfolio. In its forward trading, the portfolio is subject to the risk of failure of, or the inability or refusal to perform with respect to its forward contracts by, the



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principals with which the portfolio trades. Portfolio assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Adviser may order trades for the portfolio in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the portfolio to the risk of loss.

Forward contracts involve the risk of imperfect correlations in movements in the price of the future and movements in the price of the currency which underlie the future and the risk of loss in trading forward contracts can be substantial. Additionally, there are generally no limitations on daily price moves in forward transactions, and forward contracts are subject to the credit risk of the principal or its refusal to perform. It may be difficult to enforce the contractual obligations of a non-United States principal if a principal refuses to perform under a forward contract.

#### Non-Deliverable Forward Contracts

The Adviser may also enter into non-deliverable forward contracts which do not require any physical transfer of currencies or dealing with local currency markets. Under a non-deliverable forward, a notional principal amount is set when the forward is entered into, together with a forward exchange rate and forward date. On the forward date, however, there is no physical transfer of currencies; rather, net settlement is made in U.S. dollars or another pre-specified convertible currency in the amount of any differential between the agreed upon forward rate and the applicable exchange rate on the relevant forward date.

#### Derivatives in General

The Adviser will use derivative instruments, including, without limitation, warrants, options, swaps, notional principal contracts, forward contracts, futures contracts and options thereon, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the portfolio to close out positions in order either to realize gains or to limit losses.

Many of the derivatives that the portfolio may trade are principal-to-principal or “over-the-counter” contracts between the portfolio and third parties entered into privately, rather than on an exchange. As a result, the portfolio may not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Certain derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the portfolio wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the portfolio’s Net Asset Value and may materially adversely affect the portfolio in situations in which the portfolio is required to sell derivative instruments.

#### Trading in ETFs

The Adviser may invest in ETFs. ETFs are funds that track a particular basket or index of securities traded on a public exchange. In this manner, ETFs are similar to open-ended index mutual funds. However, ETFs are traded like stocks on stock exchanges such as the American Stock Exchange. Accordingly, although investments in mutual funds and ETFs are subject to similar risks, ETFs have certain unique risks not shared by mutual funds. Some of the risks of investments in ETFs include the following:

##### *General Risks*

An investment in ETFs comprised of publicly traded stocks are subject to the risks that impact the portfolio of underlying stock, including market risks resulting from such factors as economic and political

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developments, changes in interest rates and perceived trends in stock prices. In addition, investment techniques such as short selling and margin debt may be used with ETFs which would expose the Fund to the risks associated with those investment techniques.

#### *ETF Trading*

It is possible for the value of ETFs to fall or to rise more slowly than the stock market as a whole even when stock prices in general are rising. Risk is also involved in ETF selection. Unlike open-ended mutual funds, ETFs may potentially trade above or below the value of their underlying portfolios. While most ordinary mutual funds can only be bought or sold at the end of the day at the calculated net asset value of the fund, ETFs may be purchased or sold throughout the day at prices that are not guaranteed to match the underlying value of the stocks in the portfolio. Accordingly, the Fund could be exposed to corrective forces if it inadvertently purchases an ETF at a premium to the underlying value of the stocks in the ETF.

#### *Layering of Fees*

With respect to the Fund's investment in ETFs, the Fund's direct fees and expenses, coupled with its indirect fees and expenses, results in at least two levels of fees and greater expense than would be associated with direct investment. The Fund's expenses related to its investment in ETFs thus may constitute a higher percentage of net assets than expenses associated with other investment vehicles.

#### *International ETFs*

ETFs comprised of foreign securities may be highly volatile in nature. In general, foreign markets are not as liquid and do not have pertinent information disseminated as efficiently as United States markets. International investments may also involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic or political instability in other nations.

#### *Trading in Specialty or Sector ETFs*

The Fund may invest a portion of its assets in ETFs that are industry, sector or capitalization specific, and thereby may be subject to the volatility attendant with such a specialized focus.

#### *Distributions from ETFs*

The tax regulations pertaining to ETFs generally cause them to distribute their taxable gains in the form of a dividend near year-end. The share price of the ETF would generally drop by a corresponding amount on the ex-dividend date of the distribution. Such distributions are made on a *pro rata* basis without regard to the actual gains or losses an individual ETF shareholder may have sustained. Accordingly, investors who have real economic gain less than the amount of the dividend may then have a motivation to sell those ETF shares to claim the drop in share price as a capital loss and thereby offset the income distribution. However, wash sale rules require that the investor not re-invest for 31 days in order to claim the capital loss deduction. Accordingly, tax strategies employed by other investors may increase the price volatility of ETF shares and of securities owned by such ETFs at times near to the distribution of such a dividend. Similarly, the Fund may elect to manage its taxable income by avoiding certain ETFs during their income distributions, thereby introducing an additional element of risk into its timing models.

### Options

Options may be traded on and off exchanges. Each such option is a right, purchased for a certain price, to either buy or sell an underlying futures contract, security, other financial instrument or physical commodity during a certain period of time for a fixed price. Such trading involves risks substantially similar to those involved in trading futures and forward contracts in that options are speculative and highly leveraged. Specific market movements of the instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option, the strike price of the option and the price of

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the instrument underlying the option, or the relevant reference price used to settle the option which the writer must purchase or deliver upon exercise of the option.

#### Debt Instruments

The debt instruments in which the Adviser invests may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. The Adviser's investments in debt instruments may experience substantial losses due to adverse changes in interest rates and the market's perception of issuers' creditworthiness.

#### Repurchase Agreements

The Adviser may use repurchase agreements to finance its direct purchases of certain securities, although the Adviser may use other forms of financing or leverage, including total return swaps and other derivative transactions. Repurchase agreements and total return swap financing entail significant financial risks, including the potential risk of loss of initial margin and additional amounts that may be required to be posted with the counterparty to the repurchase agreement or total return swap, as applicable, in connection with a particular transaction.

Traditional leverage used in repurchase agreement financing is sensitive to the price volatility of the assets being financed. If the market price of the assets being financed deteriorates, the Adviser may be required to post additional margin or, if sufficient margin is not available, may be required to sell a financed position. This form of financing is typically called "mark-to-market recourse financing" because the repurchase counterparty uses the mark-to-market price of the financed assets to determine whether to call for additional margin. Under the arrangements for such financing, the repurchase counterparty has recourse to the assets of the Adviser used to secure the financing.

More specifically, if the market value of securities purchased by the counterparty under a repurchase agreement (the "Purchased Securities") declines, the Adviser may be required to deliver additional margin. If additional margin is not properly posted, the counterparty to the repurchase agreement may declare that an event of default has occurred and sell all or a portion of the securities that are subject to the repurchase transaction. In addition, the Adviser may be responsible for any shortfall after such sale.

The Adviser may be required to repurchase the Purchased Securities on a specified repurchase date. If the Adviser fails to repurchase the Purchased Securities, the repurchase counterparty may declare an event of default under the repurchase agreement and sell the Purchased Securities. As a result, the Adviser may suffer the loss of some or all of its investment. Repurchase agreements generally do not provide for a right to early termination. Therefore, if a repurchase agreement counterparty agrees to an early termination of a repurchase transaction, the Adviser may be required to pay a transaction breakage fee and suffer a substantial loss. The repurchase agreements contemplated by the Adviser will be for terms of one month, three months or six months. The repurchase agreement counterparty is under no obligation to enter into new repurchase agreements with the Adviser. The inability of the Adviser to roll a repurchase agreement would require the Adviser to sell securities which may lead to a substantial loss.

#### Credit Default Swaps

The Adviser may purchase and sell credit derivatives contracts on a principal-to-principal basis — primarily credit default swaps — for hedging and risk management purposes. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity and deliverable by the buyer to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract.

As a buyer of credit default swaps, the Adviser is subject to certain risks in addition to those described under "Derivatives in General," above. When the Adviser is the buyer of a credit default swap, it would be entitled to

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receive the agreed-upon value (or par) of a referenced debt obligation from the counterparty to the swap if there is a default by a third-party issuer of the debt obligation. As consideration, the Adviser would pay to the counterparty a periodic stream of fixed payments during the life of the swap if no event of default has occurred, in which case the Adviser would receive no benefits under the swap. In circumstances in which the Adviser does not own the debt securities that are deliverable under a credit default swap, the Adviser is exposed to the risk that deliverable securities may not be available in the market, or may be available only at unfavourable prices, as would be the case in a so-called “short squeeze.” In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Adviser would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Adviser incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Adviser may not have any legal recourse against the reference entity and may not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Adviser following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Adviser. Moreover, the credit default swap market is an illiquid market.

#### Total Return Swaps

Under a total return swap, the Adviser may be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including an index or security, including interest and the gain or loss on such asset over the term of the swap. The Adviser may be required to maintain collateral with the total return swap counterparty. If the Adviser fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Adviser may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipt from the counterparty of further total return swap payments.

#### Synthetic Securities

The Adviser may invest in Synthetic Securities. In such case, the Adviser will usually have a contractual relationship only with the counterparty of such Synthetic Security, and not with the Reference Obligor of the Reference Obligation. The Adviser generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor will it have any rights of setoff against the Reference Obligor or rights with respect to the Reference Obligation. The Adviser will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the counterparty, the Adviser will be treated as a general creditor of such counterparty, and will not have any claim with respect to the Reference Obligation. Consequently, the Adviser will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities in any one counterparty subject the securities to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor.

A “Synthetic Security” is any derivative debt, equity or other type of financial instrument purchased or entered into by the Adviser with or from a synthetic security counterparty, which investment contains similar characteristics as those of the related Reference Obligation (without taking account of such considerations as they relate to the synthetic security counterparty), but which will contain characteristics that may be different from the Reference Obligation to which the Synthetic Security relates. “Reference Obligation” means the obligation upon which a Synthetic Security is based. “Reference Obligor” means the obligor on a Reference Obligation.

#### Futures

Futures contracts and options thereon are traded through exchanges and their clearinghouses. The low initial margin deposits normally required in futures trading (typically between 2% and 15% of the value of the contract purchased or sold) permit an extremely high degree of leverage. Accordingly, a relatively small price movement

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may result in immediate and substantial losses to the portfolio. Like other leveraged investments, any trade may result in losses in excess of the amount invested. Although the use of leverage can substantially improve the return on invested capital, its use also may increase any adverse impact to which the investment portfolio of the portfolio may be subject. Although the Adviser may trade in futures and options on futures, the Adviser will be exempt from registration as a commodity pool operator with the U.S. Commodity Futures Trading Commission. Therefore, investors will not benefit from the regulatory protections afforded to investors in regulated commodity pools operated by registered commodity pool operators.

#### Trading on Exchanges Outside of the United States

The Adviser may trade futures interests on exchanges located outside the United States, where the protections provided by U.S. regulations do not apply. Some non-U.S. commodity exchanges, in contrast to U.S. exchanges, are “principals’ markets” in which performance with respect to a futures interest contract is the responsibility only of the individual member with whom the trader has entered into the contract and not of the exchange or its clearinghouse, if any. In the case of trading on non-U.S. exchanges, the portfolio is subject to the risk of the inability of or refusal by its counterparties to perform with respect to their contracts with the portfolio. The portfolio also may not have the same access to certain trades as do various other participants in non-U.S. markets.

#### Exchange-Rate Risk

Because the Adviser determines its Net Asset Value in United States dollars, with respect to trading on non-U.S. markets it is subject to the risk of fluctuation in the exchange rate between the local currency and dollars and to the possibility of exchange controls.

#### Instruments Issued Outside the United States

The Adviser may trade and invest in instruments issued in a number of non-U.S. countries. Investing in these instruments involves considerations and possible risks not typically involved in investing in instruments issued within the United States, including instability of some governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States (e.g., the imposition of withholding taxes on interest payments, income taxes and excise taxes) or confiscatory taxation may also affect the Adviser’s investments (which will be made almost exclusively outside the United States). The Adviser may incur higher expenses from investments outside the United States than the portfolio would investing in U.S. instruments because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. The Adviser’s investments (which will be made almost exclusively outside the United States) could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

#### Short Sales

As an integral part of the Adviser’s trading strategies, it routinely sells securities and currencies “short.” A short sale is effected by selling a security or currency which the Adviser does not own. In order to make delivery to the buyer of a security or currency sold short, the Adviser must borrow the security or currency, as applicable. In so doing, it incurs the obligation to replace that security or currency, whatever its price may be, at the time it is required to deliver it to the lender. The Adviser must also pay to the lender of a security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security or currency, as applicable, may appreciate before the short position is closed out. There can be no assurance that the securities or currency, as applicable, necessary to cover the short position will be available for purchase by the Adviser. In addition, purchasing securities or currency to close out a short position can itself cause the price of the relevant security or currency, as applicable, to rise further, thereby increasing the loss incurred by the Adviser.

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Furthermore, the Adviser may prematurely be forced to close out a short position if a counterparty from which the Adviser borrowed securities or currency, as applicable, demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position.

#### Hedging

The Adviser will not, in general, attempt to hedge all market or other risks inherent in the portfolio's positions, and may hedge certain risks, if at all, only partially. Specifically, the Adviser may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the portfolio's overall portfolios. The portfolio's composition will commonly result in various directional market risks remaining unhedged. The Adviser may rely on diversification to control such risks to the extent that the Adviser believes it is desirable to do so; however, the portfolio will not be subject to formal diversification policies.

The Adviser may enter into hedging transactions with the intention of reducing or controlling risk. Even if the Adviser is successful in doing so, the hedging may reduce the portfolio's returns. Furthermore, it is possible that the Adviser's hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses.

To the extent that the Adviser hedges, its hedges may not be static but rather may need to be continually adjusted based on the Adviser's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of the Adviser's hedging strategy will depend on the Adviser's ability to implement this dynamic hedging approach efficiently and cost effectively, as well as on the accuracy of the Adviser's ongoing judgments concerning the hedging positions to be acquired by the portfolio.

Fixed income hedging can be made particularly difficult because of the different "convexities" of different fixed income instruments. Convexity is the rate at which the sensitivity of an instrument to interest-rate movements changes as such movements occur. Differential convexity can materially disrupt the pricing relationship of positions which the Adviser intends to be generally offsetting.

Item 9:

#### **DISCIPLINARY INFORMATION**

This Item is not applicable.

Item 10:

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

Commodities-Related Registration. The Adviser is registered as a commodity pool operator. Certain of the Adviser's *management persons* are registered as an associated *person* of the foregoing entity.

Item 11:

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

The Adviser has adopted a compliance manual which includes a code of ethics ("the Code") to set forth standards of business conduct applicable to the Adviser and its Supervised Persons (as defined below), which include all employees, and other persons designated by the Adviser's Chief Compliance Officer. This Code is based on the principle that the Adviser as an investment adviser has a fiduciary duty to act in the best interest of its clients.

The Adviser requires all firm personnel to comply with the applicable federal securities laws and report violations of the rules set out in the Code of Ethics promptly to the Chief Compliance Officer. The compliance manual and the Code is applicable to all officers, directors, members of the Adviser, (or persons performing a similar function or having a similar status) any employee of the Adviser, any person providing investment advice on behalf of the

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Adviser and subject to the supervision and control of the Adviser, as well as any persons working with such persons in the Adviser's offices (such as independent contractors) and any other persons designated by the Chief Compliance Officer or its designee. Such persons are referred to as "Supervised Persons."

The Firm encourages all Supervised Persons to contact the Chief Compliance Officer if they are uncertain about how to react to particular circumstance or concern. All Supervised Persons at the Adviser must acknowledge the terms of the Code of Ethics annually. Clients and prospective clients may request a copy of the Code of Ethics and relevant policies and procedures by writing to Covepoint Capital Advisors LLC, 152 West 57<sup>th</sup> Street, 41<sup>st</sup> Floor, NYC, NY 10019, and Attention: Mr. Mark Strachan.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

#### Client Transactions in Securities Where Adviser has a Material Financial Interest

The Adviser or its related persons, as principal, currently and historically have not, but may buy securities from (or sell securities to) its client.

It is the Adviser's policy that neither the Adviser, any person in a control relationship with the Adviser or any employee or Supervised Person of the Adviser shall effect transactions as a principal with any client of the Adviser unless such transactions are in compliance with the provisions of the Advisers Act Rule 206(3)-2.

A Principal Transaction occurs when the Adviser, acting for its own account or the account of an affiliate, engages in a trade with a client's account. The SEC requires an adviser engaging in Principal Transactions to: (1) determine that the transaction is in the best interest of the client, (2) disclose its practices to clients (3) comply with the requirements of Section 206(3) of the Advisers Act. Section 206(3) requires an adviser, prior to completing any Principal Transaction, to: (A) disclose to the client in writing the capacity in which the adviser is acting and (B) obtain the client's informed consent prior to completing the particular transaction (a blanket general consent is not sufficient). The Compliance Officer will consult with outside counsel for guidance on the current position of the relevant regulators as to whether the beneficial ownership of the Adviser and/or its Supervised Persons in a client account will deem the account to be a proprietary account for purposes of this requirement.

#### Investing in Securities Recommended to Clients.

In addition, the Adviser or its related persons may invest in the same securities (or related securities, e.g., warrants, options or futures) that the Adviser or a related person recommends to clients. Such practices present a conflict where, because of the information an Adviser has, the Adviser or its related person are in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are

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executed in order to benefit from any price movements due to the clients' trades). In addition to affecting the Adviser's or its related person's objectivity, these practices by the Adviser or its related persons may also harm clients by adversely affecting the price at which the clients' trades are executed. The Adviser has adopted the following procedures in an effort to minimize such conflicts: The Adviser requires its related persons/access persons to pre-clear all transactions in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction. In addition, the Adviser's Code prohibits the Adviser or its related persons/access persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the Chief Compliance Officer. All of the Adviser's related persons are also required to provide broker confirmations of each transaction in which they engage and a monthly reconciliation of such transactions. Trading in personal accounts will be reviewed by the Chief Compliance Officer and compared with transactions for the client accounts and reviewed against the restricted securities list.

## Item 12

### **BROKERAGE PRACTICES**

#### Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include nature and size of the transaction; the broker's trading expertise, reliability, responsiveness and performance in execution, clearance, settlement, error correction capability and the value of research that it provides. In selecting a broker-dealer to execute transactions and determining the reasonableness of the broker/dealers compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's traders and the Compliance Officer meet regularly to evaluate broker/dealer performance.

#### Research and Other Soft Dollars

The Adviser may receive research or other products or services other than execution from a broker-dealer in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser will generally limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); corporate governance research and rating services; data services (including services providing market data, company financial data and economic data. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's Chief Compliance Officer, traders and portfolio managers/etc. meet regularly to review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the



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broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser may not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

The Adviser may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for clients.

During the Adviser's last fiscal year, as a result of trading with counterparties, the Adviser and/or its related persons acquired from its broker-dealers research reports (including market research); corporate governance research and rating services; data services (including services providing market data; services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations.

#### Brokerage for Client Referrals

From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser or recommend these private funds as an investment to clients. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

#### Order Aggregation

The Adviser often purchases or sells the same security for many clients contemporaneously/at or near the same time and using the same executing broker. It is the Adviser's practice, where possible, to aggregate client orders for the purchase or sale of the same security submitted contemporaneously/at or near the same time for execution using the same executing broker. The Adviser will also aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating clients. The Compliance Officer is responsible for monitoring the Adviser employees' and client trading for

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compliance with this policy. In addition, the policy will be reviewed at least annually by the Compliance Officer to ensure that the procedures set forth in the policy are adequate.

Item 13

**REVIEW OF ACCOUNTS**

Reviews

All investment portfolios managed by the Adviser are monitored by the Adviser's portfolio management team on a continuous basis. This includes a review of relevant portfolio positions, performance, exposure, risk and trading activity. The portfolio management teams utilize a proprietary technology application to manage this process.

The Adviser's operations and accounting team reconcile portfolio positions with each prime broker, custodian and the independent fund administrator on a regular basis.

Where an investment portfolio operates with an exposure or position limit, at the end of each day relevant measures are calculated and reviewed by the Compliance Officer or in his absence a supervised person with the accounting team. In the case of a limit breach, the Compliance Officer or in his absence the Deputy Compliance Officer is responsible for monitoring the reduction of said exposure or position to below the relevant limit. Certain of these limits are detailed within the relevant fund offering document; for complete details on limits, investors may contact the Adviser.

Content and Frequency of Regular Account Reports

The Adviser prepares periodic reports/letters to provide to its clients and/or the client's underlying investors, detailing the performance and composition of such client's investments. As a general matter, such reports/letters are prepared and issued monthly for the clients. In addition, the Adviser prepares mid-month and end of month performance estimates for clients.

The clients are also subject to review by independent public accountants, which results in annual audited financial statements being produced for each such client.

For client accounts that are pooled vehicles, a client's investors receive reports from the client pursuant to the terms of each client's offering memoranda or as otherwise described in the offering document of the client.

Item 14.

**CLIENT REFERRALS AND OTHER COMPENSATION**

The Adviser does not generally or currently utilize third-party placement agents in connection with client referrals, but may do so in the future, provided that, to the extent required, each such third-party placement agent has entered into a written agreement with the Adviser pursuant to which the third-party placement agent will provide each prospective client with a copy of the Adviser's Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the third-party placement agent and Adviser and any fees to be paid to the third-party placement agent. The Adviser in the past has utilized third-party placement agents in connection with the sale of interests in certain accounts to underlying investors and compensates such third-party placement agents for their services. Any compensation paid to third-party placement agents in connection with either client referral or the sale of interests in certain accounts to underlying investors would ultimately be borne by the Adviser. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

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Item 15.  
**CUSTODY**

In certain other instances where the Adviser has custody of client assets (including holding, directly or indirectly, client funds or securities or having the authority to obtain possession of them), the Adviser may comply with the Custody Provisions by requiring that a qualified custodian send quarterly, or more frequent, account statements directly to clients.

In these instances, clients should carefully review the statements sent by such qualified custodian. In addition, we urge clients receiving such statements to compare the account statements received directly from the qualified custodian with those provided by the Adviser.

Item 16.  
**INVESTMENT DISCRETION**

As investment adviser to the investment portfolios, the Adviser is granted full discretionary authority in the relevant fund offering documents and/or investment management agreements to determine which securities and the amounts of securities to be bought or sold. In all cases such discretion is exercised in accordance with the stated investment objectives and where applicable limits which are stated in the relevant fund offering documents and/or investment management agreement.

The Adviser provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. Following an aggregated order, the Adviser will generally make a pro rata allocation to all participating clients. The Adviser may consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a pari passu basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

The Adviser may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and

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responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Adviser or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA.

Item 17.

### **VOTING CLIENT SECURITIES**

To the extent that the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser complies with its proxy voting policies and procedures that are designed to ensure that in all cases where the Adviser votes proxies with respect to client securities, such proxies are voted in the best interests of its clients.

The Adviser's clients are not permitted to direct their votes in a particular solicitation.

If a material conflict of interest between the Adviser and a client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. The Adviser does not make any qualitative judgment regarding its client's investments.

Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted a client's proxies by contacting Mark Strachan (Chief Compliance Officer) by email at [mstrachan@covecap.com](mailto:mstrachan@covecap.com) or by telephone at (212) 782-3656.

Item 18.

### **FINANCIAL INFORMATION**

This Item is not applicable.

Item 19.

### **REQUIREMENTS FOR STATE-REGISTERED ADVISORS**

This Item is not applicable.