

F-Squared Capital, LLC

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Form ADV Part 2A Brochure

October 2013

This brochure provides information about the qualifications and business practices of F-Squared Capital, LLC (hereinafter “F-Squared”). If you have any questions about the contents of this brochure, please contact us at 866-288-7657 or info@f2inv.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Registration with the SEC does not imply that F-Squared or any person associated with F-Squared has achieved a certain level of skill or training.

Additional information about F-Squared is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Summary of Material Changes

F-Squared has revised its brochure to clarify its provision of advisory services through the implementation of its index products.

F-Squared's initial Form ADV was filed on April 18, 2013.

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Item 4: Advisory Business

Description of our Firm

F-Squared Capital, LLC (hereinafter “F-Squared”) is an SEC registered investment management firm located in Wellesley, Massachusetts that commenced operations as an investment adviser in 2013.

F-Squared is a wholly owned subsidiary of F-Squared Investment Management, LLC. F-Squared Investment Management, LLC is a privately owned company with no individual member owning more than 25% of the company as of August 31, 2013. Howard Present is the managing member of F-Squared.

Types of Services We Offer

F-Squared provides investment advisory services relating to various index products (the “Advisory Services”).

AlphaSector Indexes

An affiliate of F-Squared has created a suite of indexes (the “AlphaSector Indexes”) designed to meet real investment needs. F-Squared has licensed the AlphaSector Indexes from AlphaSector Investments, Inc. The AlphaSector Indexes seek to achieve relative returns in rising markets and limit negative returns in declining markets. The AlphaSector Indexes are quantitative models programmed to utilize price movements of exchange traded funds (“ETFs”) as a criteria for component inclusion. There are currently 75 AlphaSector Indexes (including both standard and customized indexes).

Advisory Services - Separately Managed Accounts

F-Squared provides investment advisory services on a discretionary basis to separately managed accounts (the “SMAs”).

F-Squared’s Advisory Services utilize investment portfolios designed to create long-term value by tracking or replicating one or a combination of the AlphaSector Indexes (such portfolios, the “Strategies”). The Strategies are offered to clients including unaffiliated investment advisers, wealth managers and individual investors.

Tailored Advisory Services

F-Squared provides the Advisory Services by seeking to replicate in an account one or more of the AlphaSector Indexes. Although F-Squared generally does not tailor its Advisory Services, F-Squared may offer custom advisory services to unaffiliated investment advisers upon request. F-Squared generally does not allow clients to impose restrictions on investing in certain securities or types of securities.

Wrap Fee Programs

F-Squared does not currently participate in any wrap fee programs although it anticipates it will do so in the future.

Assets under Management

As of August 31, 2013, the total assets under management for F-Squared are as follows:

<i>Discretionary:</i>	\$282,300,594
<i>Non-Discretionary</i>	<u>\$0</u>
<i>Total:</i>	\$282,300,594

Item 5: Fees and Compensation

Fee Schedule

F-Squared receives management fees for the provision of its Advisory Services. With respect to SMAs, F-Squared receives a management fee based on the market value of the total assets invested by the client using the AlphaSector Indexes. F-Squared will receive the management fee on a quarterly basis, paid in advance via automatic deduction from the client's account. The rates for such management fees will generally range from 65 to 100 basis points. Such fees may be negotiable.

F-Squared may become investment manager for a limited number of related "Friends and Family" accounts. Fees may be waived for these clients (for example, employees of F-Squared and its affiliates, board members, investors in F-Squared Investment Management, LLC. and their families).

Other Types of Fees or Expenses

F-Squared provides various investment advisory services. Such arrangements are not uniform and fees may be separately negotiated. Firms that utilize our services may choose different billing methods for applying fees to the underlying investors.

In addition to the management fees described above, Advisory Service clients may also incur fees and expenses charged by custodians and imposed by financial intermediaries. See Item 12 which describes F-Squared's brokerage practices and the process for reviewing a broker dealer for Advisory Service clients' transactions in applicable situations.

Advisory recommendations are based on the Client's financial situation at the time the services are provided and are based on financial information disclosed by the Client. Clients are advised that certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the markets and the economy. Past performance is in no way an indication of future performance. Clients are reminded that as their financial situation, goals, objectives or needs change that the Client must notify F-Squared immediately. Individual investors are encouraged to speak with their financial, legal and tax advisors prior to making any investment decisions.

Item 6: Performance-Based Fees

F-Squared does not charge performance-based fees.

Item 7: Types of Clients

F-Squared provides Advisory Services to a number of clients which may include wealth management, investment advisory firms and other business entities and individuals.

The minimum investment to open a new account for an SMA is generally \$100,000.

F-Squared may waive any and all minimum account requirements at its sole discretion.

Item 8: Method of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis for Advisory Services

F-Squared generally offers SMAs and trading services for SMAs that track the AlphaSector Strategy Indices from F-Squared Institutional Advisors, LLC. Please see Form ADV Part 2 of F-Squared Institutional Advisors, LLC for more detail concerning these strategies.

The AlphaSector Strategies seek to track or replicate one or more of the AlphaSector Indexes in an effort to modestly outperform its assigned benchmark in growth markets and significantly outperform its benchmark during bear markets. The quantitative models underlying the AlphaSector Strategies are based on three primary components:

- Historical Price Return
- Volatility
- Changing Levels of Volatility

The AlphaSector Strategies cover several major asset classes: US Equity, International, Fixed Income, and Real Assets (Gold and Real Estate), plus asset allocation strategies that combine various combinations of these core asset classes.

Advisory Services – Strategy Portfolio Construction and Design

All monthly Strategy portfolios are reviewed monthly and all AlphaSector Premium Strategy portfolios are reviewed weekly for reconstitution and rebalancing.

The following is a summary of the core AlphaSector Strategies.

AlphaSector U.S. Equity Strategies (AlphaSector Rotation Strategy and AlphaSector Premium Strategy) seek to replicate the applicable index ETFs representing the 9 sectors of the U.S. economy or short-term Treasuries. The implementation of the strategy is most often through ETFs, which are low cost, highly liquid index-linked vehicles tracking the performance of each respective sector. The ETFs most often used are published by industry leading ETF providers representing the 9 sectors of the U.S. economy and an ETF tracking short term Treasury securities as the proxy for a cash equivalent. As such, there are a maximum number of 9 securities in the portfolio at any one time, resulting in operational ease and lower transaction costs.

AlphaSector Global Strategy is a blend of two index strategies, the AlphaSector U.S. Equity Strategy and the AlphaSector International Strategy. The AlphaSector International Strategy includes 5 ETFs

reflecting the key world economic regions outside the U.S. as well as a Short-term Treasury ETF used as a proxy for a cash equivalent.

Alpha Sector INFINITY Strategy is a diversified multi-sector, inflation neutral fixed income offering which includes ETFs tracking 6 bond sectors and 1 short-term treasury ETF as a cash equivalent.

AlphaSector Allocator Strategy is a diversified portfolio of the U.S. Equity, International and Fixed Income Strategies adding in ETFs tracking “alternative” asset classes such as gold and REITs.

Default “position” within each AlphaSector Strategy is typically to have all available ETFs (other than cash equivalents) invested and equally weighted within that index or sleeve at the time of rebalancing. Decisions to remove a sector or asset class from the portfolio at any time are based on a probabilistic determination that that sector or asset class is viewed as likely to lose money on a forward looking basis.

Risk of Loss Relating to Advisory Services

All investments in securities include a risk of loss that clients should be prepared to bear. The principal risks of the Strategies are as follows:

- **Market Risk:** The risk that the value of the securities in which the Strategies invest may drop in reaction to tangible and intangible events and conditions, independent of a security’s particular underlying circumstances. For example, political, economic, and social conditions may cause a change in the value of the securities. Price changes may be temporary or may last for extended periods.
- **Equity Securities Risk:** The risk that events or circumstances at a particular industry, or a particular company within an industry will impact the value of the stocks and ETFs held by the Strategy and thus, the value of your investment over short or extended periods.
- **Interest-Rate Risk:** The risk that fluctuations in interest rates may cause investment prices to fluctuate and impact the value of Fixed Income securities or ETFs held by the Strategy. For example, when interest rates rise, yields on existing bonds become less attractive causing their market values to decline.
- **ETF Risk:** The risk that the value of an ETF in which a Strategy invests will be more volatile than the underlying portfolio of securities the ETF is designed to track, or that the costs to the fund of owning shares of the ETF will exceed those the fund would incur by investing in such securities directly.
- **Sector Concentration Risk:** The risk that events negatively affecting an industry or market sector in which the Strategy invests will cause the overall value of the Strategy to decline. To the extent that some of the Strategies invest significant portions of their portfolios in ETFs representing particular markets or sectors (such as Energy, Healthcare, Real Estate, etc.) or in an ETF representing U.S. Treasuries, the Strategy is more vulnerable to conditions that negatively affect such sectors as compared to an investment strategy that is not significantly invested in such sectors.

- **Turnover Risk:** The risk that frequent trading will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains that can negatively impact an investor's overall investment as compared to investments in strategies with low turnover.
- **U.S. Government Securities Risk:** The risk that U.S. Government securities in a Strategy will be subject to price fluctuations, or that an agency or instrumentality will default on an obligation not backed by the full faith and credit of the United States.
- **Quantitative Risk:** The risk that the effectiveness of the quantitative model used for the strategy can dissipate over time as similar Strategies are adopted and as the market becomes more efficiently priced.
- **Programming / Modeling Risk:** F-Squared's research and modeling process is extremely complex and the results of that process must then be translated into computer code. Although F-Squared seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect a client's portfolio and likely would not constitute a trade error under F-Squared's policies.
- **System Risk:** F-Squared relies extensively on computer programs and systems in its proprietary modeling to evaluate securities, to monitor its portfolio, and to generate reports that are critical to oversight of its activities. In addition, certain systems operated by third parties, including counterparties and service providers, may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer "worms," viruses and power failures. Any such defect or failure could have a material adverse effect on F-Squared's activities. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect F-Squared's ability to monitor information.
- **Operational Risk:** F-Squared has developed systems and procedures to control operational risk. Operational risks arising from mistakes made in the trade confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in F-Squared's operations may cause F-Squared to suffer financial loss; the disruption of its business; liability to clients or third parties; regulatory intervention; or reputational damage. F-Squared relies heavily on its financial, accounting and other data processing systems.

Item 9: Disciplinary Information

This Item is not applicable.

Item 10: Other Financial Industry Activities and Affiliations

Broker-Dealer Affiliations

F-Squared is not registered as a broker-dealer nor does it have any pending application to register as a broker-dealer.

Futures/Commodities Affiliations

Neither F-Squared, nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Investment Adviser Affiliations

F-Squared Capital, LLC is a subsidiary of F-Squared Investment Management, LLC. Other registered investment adviser subsidiaries of F-Squared Investment Management, LLC include F-Squared Investments, Inc., F-Squared Institutional Advisors, LLC, F-Squared Retirement Solutions, LLC, F-Squared Alternative Investments, LLC, and F-Squared Institutional Solutions, LLC. F-Squared does not recommend or select any of the above affiliates, or any other investment adviser, for its clients.

Item 11: Code of Ethics, Participation in Client Transactions and Personal Trading

F-Squared has adopted a Code of Ethics (the “Code”) which sets forth high ethical standards of business conduct for our employees and governs a number of potential conflicts of interest that we may encounter when providing investment advisory services. The Code is based on the principle that F-Squared owes a fiduciary duty to the investors for which we serve as an adviser. In adherence with the Code, F-Squared and its employees must avoid activities, interests and relationships that might interfere or appear to interfere with making decisions in the best interests of our clients. The Code seeks to place the interests of F-Squared clients over the interests of the firm and any of its employees, and to comply with the applicable Federal securities laws and other applicable law.

F-Squared distributes the Code to each employee at the time of hire and annually thereafter. Each employee is required to sign the code acknowledging that they have read, understand, and will abide by the Code and its requirements. All employees receive training and are monitored for compliance with the Code.

F-Squared will provide a copy of our Code to any client or prospective client upon request.

Our Code includes, but is not limited to the following:

- Requirements on fiduciary duty
- Prohibitions on the acceptance of gifts and entertainment that exceed our policy standards
- Prohibitions on insider trading and communication of material non-public information
- Requirements on the handling of confidential information

- Requirements for pre-clearance of employee transactions
- Identification and pre-clearance requirements on accounts where employees have beneficial interest
- Requirements for reporting applicable personal securities transactions

Personal Securities Transactions Requirements

All Access Persons (any employee of F-Squared who has access to nonpublic information concerning any clients' securities transactions or account holdings; has access to securities recommendations delivered to clients; or is a director or executive officer) must not engage, and must not permit any other person or entity to engage, in any purchase or sale of a Covered Security (all securities except Exempt Securities set forth below) in which such Access Person has, or by reason of the transaction will acquire any Beneficial Ownership (direct or indirect pecuniary interest), unless (i) the transaction is an Exempt Security (as set forth below) or (ii) he/she has have complied with the provisions set forth below.

Pre-clearance

Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer to purchase or sell any Covered Security which has been placed on the "Restricted List" or the "Pre-Clearance List" for which the person has or will have by reason of the trade a Beneficial Ownership and that F-Squared actively engages in trading, advisory services or performs research on such Covered Security.

Finally, Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer before directly or indirectly acquiring beneficial ownership in any security in an initial public offering or in a limited offering.

In addition to Access Persons, all employees of F-Squared are required to receive pre-clearance trading approval from the Chief Compliance Officer to purchase or sell any security placed on the "Pre-Clearance List" or the "Restricted List."

Exempt Securities

Access Persons are required to report all transactions in Covered Securities. The following are generally not considered Covered Securities:

- Direct obligations of the Government of the United States;
- Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;
- Shares issued by money market funds;
- Shares issued by open-end funds except Reportable Funds (any Fund for which F-Squared serves as investment adviser or any fund whose investment adviser controls, is controlled by, or is under common control with F-Squared).

Item 12: Brokerage Practices

Custodians

F-Squared does not have discretionary authority to select the custodian for a client's custodial accounts or the administrator for any accounts including defined contribution accounts. The client will select the custodian or administrator to safeguard the client's assets and authorizes F-Squared to direct trades to the appointed custodian as agreed in the investment management agreement.

While F-Squared does not exercise discretion over the selection of the custodian, it may recommend a custodian to clients for execution and/or custodial services. Clients are not obligated to use the recommended custodian and will not incur any extra fee or cost associated with using a custodian not recommended by F-Squared.

F-Squared does not receive research services, other products, or compensation as a result of recommending a particular custodian that may result in the client paying higher commissions than those obtainable through other custodians.

F-Squared maintains policies and procedures to review the quality of executions and services provided by custodians on a regular basis.

Best Execution

It is F-Squared's policy to obtain best qualitative execution of client transactions so that the client's total cost or proceeds in each transaction is the most favorable given the circumstances. F-Squared considers the full range and quality of a broker-dealer's services, including but not limited to the experience and skill of the broker's traders, execution capability, commission rates, prior history of successful and prompt trade execution, back-office operational capability, client service and responsiveness, and creditworthiness. Because F-Squared may consider a range of factors to best serve the client, F-Squared is not obligated to choose the broker-dealer offering the lowest available commission rate if, in F-Squared's reasonable judgment, a higher commission will result in better overall service to the client.

The following are additional details regarding the brokerage practices of F-Squared:

- F-Squared currently has not entered into nor does it plan to participate in soft dollar arrangements sponsored or offered by any broker-dealers.
- F-Squared does not receive any compensation from any third party in connection with the recommendation for establishing a brokerage account.
- F-Squared will not engage in any cross transactions within its own accounts, with other client accounts or between clients' accounts. While performing trade execution services, F-Squared will seek to execute orders on a basis that is fair and equitable. Orders for multiple clients may be aggregated and allocated among the clients pro-rata based on the assets under management of each client. If all orders are not filled at the same price, then they may be allocated on an average price basis or in such other fair and equitable manner as determined by F-Squared. The combination or coordination of orders may not always be feasible and the timing of trades placed for the clients may vary.

Item 13: Review of Accounts

F-Squared reviews its Advisory Services accounts as described below.

For any single contract SMAs opened directly with F-Squared, F-Squared will conduct an initial suitability review upon opening of client accounts and then annually thereafter to discover whether there has been any change in risk or objectives of the client.

Participants in the review of client accounts include senior investment professionals, trading personnel, operations, compliance and risk personnel. This group will meet at least quarterly to review client accounts. Client account performance, security positions and size of the positions may be reviewed to ensure that all transactions are in accordance with Strategy instructions and that any tracking error to the AlphaSector Index is within a reasonably acceptable threshold. In addition, accounts are also reviewed post any trading activity to ensure proper trade execution and settlement.

The custodian and/or SMA Platform for these accounts will provide confirmation of activity reports post any trading activity and send account statements on a quarterly and annual basis. These reports may be provided by the custodian or SMA platform manager that administers the account.

Item 14: Client Referrals and Other Compensation

Other Compensation

F-Squared does not have any compensation agreements whereby F-Squared receives cash or other economic benefit from someone who is not a client in connection with providing services to actual clients.

Client Referrals

F-Squared does not directly or indirectly compensate any third-party solicitor for individual client referrals. However, an investor may be introduced to F-Squared by a third-party solicitor, in which case F-Squared may make a cash payment to that solicitor in accordance with Rule 206(4)-3. Any such cash payment shall be paid solely from F-Squared's revenue and shall not result in any additional charge to the client.

Item 15: Custody

This Item is not applicable.

Item 16: Investment Discretion

F-Squared generally is considered to have discretion over the selection and amount of securities to be bought or sold in client accounts where F-Squared is providing trade execution services, without obtaining prior consent or approval from the client. However, these purchases or sales may be subject to specific investment strategies, objectives, guidelines, or limitations previously set forth by the client and agreed to by F-Squared in the investment management agreement. Discretionary authority will be

evidenced by the client's execution of this investment management agreement which may contain any applicable limitations to such authority.

To the extent that F-Squared has investment discretion and the mandate to implement or seek to replicate an index on behalf of an Advisory Services client, F-Squared will do so after distribution of any index information. Index Provider Services counterparties and Advisory Services clients that implement the index on their own (such that F-Squared does not have investment discretion) may be disadvantaged in the event of a delay or lag in their implementation of or attempt to replicate an index relative to the dissemination of index information.

Item 17: Voting Client Securities

Except when a client has retained proxy voting authority, F-Squared will vote proxies relating to securities held in advisory client portfolios in accordance with its proxy voting policies and procedures. Voting authority for all corporate actions of underlying security holdings of the ETF remain with the ETF provider. In rare instances where the actual ETF has a corporate action, the voting authority will remain with F-Squared and F-Squared will vote in accordance with its proxy voting policies and procedures.

Item 18: Financial Information

This Item is not applicable.