

# Our Business and Practices

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**Firm Brochure**

Form ADV Part 2A

**March 2014**



okabena® investment service

March 2014

## Form ADV Part 2A



### **Okabena Investment Services, Inc.**

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Minneapolis, MN 55402-4523

This brochure provides information about the qualifications and business practices of Okabena Investment Services, Inc. If you have any questions about the contents of this brochure, please contact our Compliance Officer at (612) 339-7151 or email [svanee@okabena.com](mailto:svanee@okabena.com). This brochure is also available on our public website at: [www.okabena.com](http://www.okabena.com) and on our secure client website at: [www.okabenasecure.com](http://www.okabenasecure.com).

The information in this brochure has not been approved or verified by the US Securities and Exchange Commission or by any other securities authority or regulator, and registration with any regulator does not imply a certain level of skill or training.

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

### **Changes to Our Business and Practices**

Our firm and our business are constantly evolving. We review our policies and procedures on a regular basis to evaluate their continuing effectiveness. As a result of that process, we may amend our policies and procedures and this brochure from time to time. This brochure is updated annually and/or when material changes have occurred since the last publication. The following page summarizes "material" changes to the firm's policies, practices or conflicts of interest since the last annual update, which most recently occurred on March 31, 2013.

A current version of *Our Business and Practices – Firm Brochure (ADV Part 2A)* is available upon request.

Okabena Investment Services, Inc. is an independently owned, US SEC-registered Investment Adviser that provides investment management and investment advisory services.

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## Material Changes since Last Update

### Organizational and Governance Changes

Effective January 1, 2014, the investment accounting team under the leadership of Scott M. Russett, became part of the firm. Scott and two other members of the accounting team were formerly employees of our parent, Okabena Company. Prior to the reorganization, the firm received their services via a Services Agreement between the firm and its parent. The rationale behind the change aligns titles with current responsibilities and focus, creates growth opportunities for talented staff, and positions the organization for succession planning in the years ahead.

Scott M. Russett was named Vice President and Chief Financial Officer of the firm. Scott has over 20 years of family office and investment experience. He received his undergraduate degree in accounting and computer science at Minnesota State University – Mankato, and his Master of Business Administration degree, with honors, from the Carlson School of Management at the University of Minnesota.

## OUR ADVISORY BUSINESS – Section I

### Client Assets

The SEC allows a different computing method for reporting “client assets under management” (AUM) in our Firm Brochure than for reporting “regulatory assets under management” (RAUM) on our ADV Part 1A annual updating amendment. Under the filing instructions for ADV Part 1A, advisers are required to calculate RAUM on a gross basis; that is, without the deduction of any outstanding indebtedness or other accrued but unpaid liabilities, and must include any uncalled commitments to an OIS-managed Fund. As a result, our RAUM reported on ADV Part 1A is \$28.3 million greater than the AUM reported in this Firm Brochure, which represents the assets for which we provide investment portfolio management services on a discretionary basis, and for which we charge advisory fees.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS – Section VII

Historically, OIS has relied on regulatory exemptions that precluded registration with the Commodity Futures Trading Commission (CFTC) as a Commodity Pool Operator. Certain of these exemptions were rescinded January 1, 2013. Meanwhile the CFTC has provided “No-Action Relief” to operators of fund of funds meeting certain criteria, delaying CFTC registration until the later of June 30, 2013 or six months from the date the Division issues revised fund of funds guidance. The OIS-managed Funds met the criteria, and informed the CFTC that it intends to rely on the No-Action Relief for nine of its funds. We will assess whether or not CFTC registration will be required when the final fund of funds guidance has been issued by the CFTC.

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## I. Our Advisory Business

Okabena Investment Services, Inc. (OIS) was incorporated in the state of Minnesota in 1994, and also became an SEC-Registered Investment Adviser at that time. Its principal place of business is located in Minneapolis, MN. OIS' parent, Okabena Company, was incorporated in 1967 and was dedicated solely to serving the investment and financial needs of the Dayton family until they formed the OIS subsidiary in 1994. At that time, OIS began providing investment supervisory and portfolio management services on a discretionary basis to the direct lineal descendants of George Nelson Dayton, their spouses, and certain other individuals who met family relationship criteria. These clients make up four generations of the Dayton family and are referenced in this Firm Brochure as "taxable" clients.

In 1996, OIS extended its investment management services to small and mid-sized tax-exempt organizations outside the Dayton family, under the name of Okabena Advisors. This includes some family foundations and endowments funded by Dayton family members. Collectively these clients are referenced in this Firm Brochure as "tax-exempt" clients.

OIS serves as the discretionary investment adviser to private investment funds referenced in this Firm Brochure as "OIS-managed Funds". The OIS-managed Funds are formed as Delaware Limited Liability Companies and General Partnerships. OIS' investment program is an open architecture, "manager of managers" program. Assets are collectively managed within the OIS-managed Funds representing multiple asset classes. OIS enters into third-party agreements with various investment advisers and fund managers who "sub-manage" assets on behalf of the OIS-managed Funds, associated directly with the asset classes offered.

OIS has full discretionary authority to trade opportunistically and make investment decisions on behalf of the OIS-managed Funds, within the context of client policy and guidelines (see below). OIS is not required to obtain, and does not seek to obtain, approval from investors in the OIS-managed Funds with respect to its trading and investment decisions. Clients rely on the general market skill, knowledge, and expertise of OIS and its personnel, rather than on the robustness of any particular trading system.

OIS, as investment adviser to the OIS-managed Funds, has ultimate responsibility to ensure client portfolios are invested in accordance with client guidelines, regulatory requirements, and policies of the firm. Investment management services are fully integrated with, and supported by, the firm's accounting, tax, and compliance professionals. OIS has implemented multiple levels of review in the investment management process that are designed to ensure each client's investment objectives and constraints are fully understood, and client guidelines and the firm's fiduciary obligations are met.

### Principal Owners

Okabena Investment Services, Inc. is a wholly-owned subsidiary of Okabena Company. Okabena Company is privately-held by members of the Dayton family and their spouses. The Company is organized under the laws of Minnesota as a 'C' corporation. Ownership is spread evenly among the five branches of the family who are descendants of George Nelson Dayton. The Company was incorporated in 1967 by the five Dayton brothers, who were primarily responsible for the growth of Dayton Hudson

Corporation (now known as Target Corporation). The family is no longer actively involved with the management of Target.

### **Types of Advisory Services**

It should be emphasized that our services are not considered “financial planning” nor are we considered an “investment consulting” firm. We offer comprehensive discretionary investment management and administrative services by designing, implementing, and managing investment portfolios that protect and enhance the wealth of its clients.

The firm’s services integrate asset allocation, manager selection, ongoing monitoring, and oversight of the portfolio to achieve clients’ objectives successfully. Through access to comprehensive and sophisticated investment solutions, clients benefit from the firm’s scale to generate returns and manage risk.

Our services include:

- Investment policy development,
- Strategic and tactical asset allocation,
- Portfolio construction,
- Selection and monitoring of managers,
- Risk management, and
- Liquidity management

### **Investment Policy Statements**

At the inception of the client relationship, an Investment Policy Statement (IPS) is formalized with each advisory client’s return objective, time horizon, risk tolerance, distribution/spending needs, and any circumstances unique to the client’s preferences with regard to our investment program and models offered. Clients will meet with a representative to update and adopt the IPS on an annual basis assuring that the document accurately captures the client’s current objectives, preferences, and constraints. As appropriate, we may also review and discuss a client’s prior investment history and liquidity needs, as well as family composition and background. Tax-exempt advisory clients may submit their own IPS or may request assistance in developing one. Although the IPS is reviewed with advisory clients annually, clients may change their objectives at any time.

We rely on regular communication from clients to assure up-to-date information that may affect client goals and objectives.

### **Tailored Relationships**

We provide the flexibility to customize asset allocation at the individual client level by varying the mix of OIS-managed Funds. This approach reduces costs and provides clients access to asset classes, strategies, and managers where exposure is difficult to obtain.

### Model Portfolio Management

We construct Model Portfolios for both taxable and tax-exempt advisory clients, designed to provide asset allocation guidance for clients with different investment objectives, constraints, and preferences. Each model is designed to meet a particular investment goal. The models are intended to appeal to relatively broad groups of clients and can be customized to suit individual needs and circumstances. The decision, which model is appropriate to recommend and adopt, is determined jointly by the advisory client and us, based on individual objectives, constraints, and preferences outlined in the client's Investment Policy Statement (IPS).

We offer taxable advisory clients three model options: Stable Growth, Growth, and Aggressive Growth, all of which have pre-established, long-term asset allocation targets and ranges. Clients may implement a customized model to accommodate their particular situation.

We offer tax-exempt advisory clients one model: Strategic Allocation Model, which has pre-established, long-term targets and ranges. A client may instead elect a customized allocation, which varies from the model based on the terms documented in the client's IPS.

### Model Implementation and Monitoring

The OIS Investment Committee, comprised of the Chief Investment Officer and other investment professionals, is charged with the responsibility to establish and monitor the long-term targets and ranges of each model and customized portfolio, as adopted by each advisory client and documented in the IPS. The model and customized portfolios provide exposure to appropriate asset classes that are assigned long-term targets and ranges designed to control risk, yet accommodate tactical shifts in response to market opportunities.

### **Wrap Fee Programs**

OIS does not participate in "wrap fee" programs.<sup>1</sup>

### **Client Assets**

We provide investment portfolio management services to approximately 169 persons and entities. These services are provided on a discretionary basis. We have no non-discretionary accounts under management. As of December 31, 2013, assets under management totaled approximately \$1.36 billion.

## **II. Fees and Compensation**

We receive asset-based management fees from the OIS-managed Funds we advise. Pursuant to an Investment Advisory Agreement signed by each client, we are compensated for investment management services based on a fee rate applied to advisory clients' assets under management.

*Taxable advisory client* fees are non-negotiable and intended to cover the cost of operations, and are reviewed annually. A partial or complete waiver of fees or a special assessment may occur at year-end

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<sup>1</sup> A "wrap fee" program is an advisory program under which specified fees, not based directly upon transactions in a client's account, are charged for investment advisory services and the execution of client transactions.



as a result of changes in net operating income. Clients are notified annually of the fee rate for the coming year. Current management fees are 0.50% per annum.

For administrative purposes, an additional partnership entity has been formed to hold multiple OIS-managed partnerships and funds for *Taxable advisory clients*. A fee of 0.10% will be charged to oversee and manage the partnership and provide necessary asset allocation and reporting services.

*Tax-Exempt advisory client* fees are pre-negotiated and may range from 0.45% to 0.75% per annum. There is an exception for foundations/endowments established and funded by Dayton family members, which receive the same non-negotiable fee arrangement as Dayton family taxable advisory clients.

### Fee Billing

We deduct investment management fees directly from the OIS-managed Funds. Fees are calculated based on the unaudited Net Asset Value for the OIS-managed Fund.

*Taxable advisory client* fees are allocated *pro rata* to the underlying partners of the OIS-managed Funds based on each partner's ownership interest.

*Tax-exempt advisory clients'* fees are deducted from their accounts based on their pre-negotiated fee rates.

Tax-Exempt (non-family) advisory clients with a pre-negotiated fee arrangement receive a Quarterly Advice Notice (not a bill). Taxable advisory clients do not receive a Quarterly Advice Notice.

### Other Fees

Advisory clients are charged directly (via the OIS-managed Funds), with external expenses reasonably attributable to the management of assets, including but not limited to, sub-manager fees, audit and tax preparation fees, and brokerage and custodian fees. Such expenses will be charged to clients as incurred, based on their ownership interest in the OIS-managed Funds.

Our open architecture of "manager of managers" platform creates sub-manager fees that range between .20% and 3.00% per annum, based upon assets under management and/or committed capital, and any agreed upon performance incentives charged by the sub-managers. In some instances, we may invest client assets in funds of funds, which may create three layers of fees (inclusive of OIS' management fee). In such instances, total management fees could be as high as 3.6%.

We have the authority to waive all or a portion of management fees received from the OIS-managed Funds with respect to any particular investor, and do for certain individuals (i.e., certain officers and employees of OIS and our parent, Okabena Company, that invest in the OIS-managed Funds via an Employee Investment Program).

### Fees Paid in Advance

We charge advisory clients an investment management fee pursuant to an Investment Advisory Agreement, signed by each client, within 45 days of the beginning of each quarter based on assets under management at the beginning of the calendar quarter, adjusted for contributions, distributions, and

reallocations occurring on the first business day of the quarter. Advisory fees are deducted from client accounts on February 1, May 1, August 1, and November 1 (via the OIS-managed Funds).

Taxable advisory clients may terminate the Investment Advisory Agreement with us upon thirty (30) days written notice, prior to the end of the quarter. Tax-exempt advisory clients may terminate their Advisory Agreement with us upon three months written notice or six months written notice, prior to the end of the quarter, dependent upon the OIS-managed Fund(s) in which they are invested. In all cases, no penalty is payable by either party and no fee will be deemed refundable in the event of a termination. Clients should be aware, however, all terminations remain subject to the terms and conditions set forth in the OIS confidential offering memorandum (e.g., gates and liquidity terms).

If the Investment Advisory Agreement is in effect for less than the whole of any quarterly period, the management fee will be calculated on a *pro rata* basis for the partial period of the calendar quarter for which we have served as Adviser.

### **Additional Compensation**

We receive no brokerage commission payments, transaction-based compensation, or any other type of compensation that would present a conflict of interest based upon incentive to recommend investment products.

## **III. Performance-Based Fees & Side-by-Side Management**

We do not charge a performance-based fee. Fees are based on assets under management only.

## **IV. Types of Clients**

We provide investment advice to OIS-managed Funds that rely on certain private fund exemptions from the Investment Company Act. Underlying Investors (advisory clients) in the OIS-managed Funds include:

- Qualified Individuals
- Trusts, foundations/endowments, and other charitable organizations
- Corporations and other business entities

### **Account Minimums**

We require clients to have \$5 million in “investments” to qualify as clients in our investment program. This is due to our private fund structure and regulatory constraints on asset qualifications. Clients are not required to contribute \$5 million in order to purchase Interests in any of the OIS-managed Funds. We reserve the right to determine the minimum amount acceptable based upon the circumstances of the prospective client.

## **V. Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis / Investment Strategies**

Together with the Okabena Board of Directors, we have developed a governing document named Investment Policy Manual (IPM) that serves as the primary tool of governance defining investment objectives, philosophy, policy, and strategy and performance evaluation. The IPM's purpose is to articulate the policies and procedures that govern the way we manage the assets entrusted to us, as part of an ongoing effort to achieve client investment objectives and financial goals. The IPM is reviewed and approved annually by the Okabena Board.

#### Investment Policy vs. Investment Strategy

Investment policy within which we operate includes such policies as:

- Return objectives – preservation of purchasing power, capital appreciation, and income
- Risk tolerance and control
- Eligible asset classes and investment vehicles
- Long-term capital markets expectations
- Long-term asset allocation targets, ranges and rebalancing protocols
- Benchmarking and overall performance evaluation

Investment strategy is used to implement the policy and determines where within those limits the OIS-Managed Funds (portfolios) may be at any particular time. Strategy issues include:

- Assessments of relative value between asset classes
- Deviations from long-term allocation targets
- Hiring, firing and ongoing monitoring of underlying managers
- Overall day-to-day operations

The role of the Okabena Board is to ensure that the investment policies in place are adequate to meet the financial objectives of our clients, and our investment process is capable of successfully implementing the policy. The Board may delegate certain of its responsibilities to the Investment Advisory Committee (IAC), also discussed in the Review of Accounts section of this Firm Brochure. The IAC is charged with reviewing and recommending investment policies and guidelines, and monitoring the management of the investment program to ensure compliance and achievement of performance objectives over time. Our role is to implement the investment strategy within the limits of the policy.

#### Philosophy

Our philosophy is grounded in fundamental concepts which emphasize understanding the risks and diversification across a variety of asset classes in order to achieve the most “efficient” portfolios possible (i.e., highest levels of return for given levels of risk). We manage diversified portfolios which primarily employ active strategies across different asset classes in our efforts to both maximize return and minimize risk.

For each of the asset classes offered, we develop forward-looking expectations for return, risk, and correlation used in modeling.

We use a combination of:

- strict analysis of historical data,
- review of long-term assumptions by other thought leaders,
- open dialogue amongst the team to incorporate experience and judgment, and
- results of various models, including Capital Asset Pricing Model; Black Litterman; Building Blocks; Truncated Levy Flight Model, and Johnson Model

We review these assumptions on an annual basis to confirm their continued validity.

#### Overall Policy Development

Policy development is a joint responsibility between us and the Okabena Board. Development, approval and periodic reviews occur for:

- Asset classes included for modeling and investment
- Capital markets expectations for each asset class
- Long-term strategic asset allocation targets, ranges and rebalancing protocols for the Model Portfolios
- Benchmarks for individual asset classes and the Model Portfolios

#### Policy Statement Development

Investment Policy Statement (IPS) development is the Client's and our responsibility. The IPS is discussed in detail under the Types of Advisory Services in this Firm Brochure.

- Assessment of appropriate asset allocation given individual client objectives and circumstances.

#### Investment Strategy Implementation

Strategy implementation is our responsibility and involves:

- *Tactical asset allocation* – we employ some tactical asset allocation which is a proactive process that evaluates and attempts to anticipate market risks to capitalize on market opportunities. When merited, we will make tactical shifts away from long-term strategic allocation targets within and across OIS-managed Funds. We monitor the markets and client portfolios daily in an effort to identify opportunities based on shorter-term mispricings or other anomalies.
- *Manager evaluation and ongoing monitoring* – In building a manager universe, the two most important factors are sub-manager evaluation and ongoing monitoring. The process involves a combination of OIS driven quantitative and qualitative analysis and includes input from external resources such as manager databases, portfolio analytics and risk modeling services, as well as personal networks. We do not believe that manager databases alone are sufficient in this process.

We seek to engage “best in class” managers for each component of the overall investment platform with complete objectivity. Each asset class and manager decision is made in a total portfolio context, considering the expected impact of individual changes on the overall OIS-managed Fund’s risk and return characteristics.

Once a specific mandate or theme has been identified as a desirable addition to an OIS-managed Fund and client portfolios, the investment team embarks on a thorough, disciplined process of manager identification and selection. In order to objectively identify the “best-in-class” manager suitable for delivering the investment characteristics we seek, we begin by casting a wide net and then screening that broad universe to identify the top candidates.

Our investment professionals conduct face-to-face manager meetings, both on-site (manager’s site) and at our offices throughout the selection process. Our integrated Client Relationship Management (CRM) system supports documentation of interactions in our manager due diligence process. We also make use of specialty due diligence, economic, and market research providers, in addition to outside counsel.

Details of our comprehensive review process is captured in a due diligence report. The manager judged by the OIS Investment Committee to be the best fit from a quantitative and qualitative standpoint, based on stand-alone as well as overall portfolio considerations, is ultimately selected. Our investment team (Chief Investment Officer, Investment Manager and Investment Analyst) is constantly assessing new managers and strategies for the OIS-managed Funds.

#### Performance Evaluation

Performance evaluation is the responsibility of the Okabena Board and evaluates:

- Relative return over 3 and 5 year horizons (Tax-Exempt Client)
- Relative return (over 3 and 5 year horizons), and absolute return over 5 year horizon (Taxable Client)

#### OIS Benchmarks

All benchmarks are determined jointly by us and the Okabena Board and are reviewed at regular intervals for continued relevance and validity.

*Individual Asset Class Benchmarks* – We compare performance in each asset class to relevant benchmarks which are intended to represent the true investment objectives and composition of each asset class. Collective over- (or under-) performance of sub-managers versus their respective asset class benchmarks reflects “manager selection alpha” – the extent to which collective manager performance varies from market performance.

*Model Portfolio Benchmark(s)* – We compare performance to two different Okabena-designed, constructed benchmarks with varying objectives and compositions: the Policy and Traditional benchmarks.

*Policy Benchmarks* are comprised of the individual asset class benchmarks weighted at the long-term targets of each Model Portfolio, rebalanced annually. Collective over (or under) performance of the

Model Portfolios relative to its Policy Benchmarks reflects both “manager selection alpha” as well as “tactical asset allocation alpha” – the extent to which tactical deviations from long-term strategic allocation targets add to (or detract from) performance results.

*Traditional Benchmark* is intended to represent a traditional mix of global equities and bonds available as a viable alternative for investment. Collective over (or under) performance of the Model Portfolios relative to the Traditional Benchmark reflects “manager selection alpha”, “tactical asset allocation alpha” and “strategic asset allocation alpha” – the extent to which access to non-traditional asset classes (namely Marketable Alternatives and Private Markets) and varying weights to traditional asset classes (namely Equities and Bonds) add to (or detract from) Total Program performance results.

Further information on OIS benchmarks is detailed in our confidential offering memorandum.

### OIS Asset Classes

Our investment recommendations are not limited to any specific product or service offered by any broker-dealer, investment company, or other pooled investment vehicle (including a mutual fund, closed-end investment company, private investment company or “hedge fund”, or offshore fund), or other investment adviser. Our responsibilities include determination of asset classes and strategies to be employed in client portfolios, as well as selection of external sub-managers to implement our choice of asset classes and strategies. The decisions for each client portfolio are governed by the client’s stated investment objectives, tolerance risk, liquidity, and suitability, as discussed under the Types of Advisory Services in this Firm Brochure.

We have identified the following asset classes for modeling and investment to correlate with our investment policy and strategy. Together they represent the broad opportunity set for investments within the global capital markets. The asset classes are intended to be relatively broad, while meaningfully narrow where appropriate.

Listed below are the OIS Asset Classes, including the objectives and composition of each asset class employed by the OIS-managed Funds:

### **US Equity**

*Objective:* Total return and growth, a long-term expected real return above projected client spending rates, liquidity, and diversification.

- Equity securities of companies whose primary operations and revenues are based generally inside the US.

**Okabena US Satellite Equity Fund, LLC – Taxable Client**

**Okabena Diversified Equity Fund, LLC – Tax-Exempt Client**

### Non-US Equity

*Objective:* Non-US Developed Markets Equity, Non-US Emerging Markets Equity, and Non-US Frontier Markets Equity. Total return and growth with a long-term expected real return above projected client spending rates, liquidity, and diversification through uncorrelated strategies and exposure to non-US economies and currencies.

- Equity securities of companies whose primary operations and revenues are based outside the US. Includes both developed, emerging, and frontier markets.

**Okabena International Equity Fund, LLC – Taxable Client**

**Okabena Diversified Equity Fund, LLC – Tax-Exempt Client**

### Marketable Alternatives – Hedge Funds

*Objective:* Total return mostly independent of overall market movements, risk reduction/low volatility, diversification through uncorrelated strategies and exposure to global economies and currencies.

- Equity, debt and derivative securities of public and some private companies, typically held in private limited partnerships, diversified by strategy. Comprised broadly of two main categories, Absolute Return and Market Directional strategies.

**Okabena Partnership DE – Taxable Client**

**Okabena Marketable Alternatives Fund, LLC – Tax-Exempt Client**

### Private Capital – Private Equity / Natural Resources / Private Real Estate

*Objective:* Enhanced total return and growth with a long-term expected return well above projected client spending rates, diversification through uncorrelated strategies, exposure to global economies and currencies, and a potential inflation hedge via exposure to real assets such as commodities, commodity-based equities, real estate and timber.

- Equity, debt and derivative securities of private and some public companies typically held in private limited partnerships, diversified by strategy and vintage year.

**Okabena Partnership J – Taxable Client**

### Real Assets and Long Term Equity

*Objective:* Total return and growth, a long-term expected real return above projected client spending rates; risk reduction/diversification through uncorrelated strategies; and exposure to global economies and currencies.

- Equity, debt and derivatives securities of companies, as well as direct exposure to commodities contracts and/or ownership of physical assets in US, non-US developed and non-US emerging markets.

**Okabena Special Opportunities Fund, LLC – Tax-Exempt Client**

### Fixed Income – Bonds

*Objective:* Income and total return; with focus on liquidity, capital preservation, low volatility, and low correlation to other asset classes.

- Municipal bonds, US government bonds, foreign bonds and currencies, precious metals, cash and other suitable fixed income securities. May also include alternative strategies that use derivatives and leverage. Securities will be diversified by quality, sector, duration, structure and geography.

**Okabena Bond Fund, LLC – Taxable Client**

### Fixed Income – Taxable Securities

*Objective:* Income and total return; liquidity; risk reduction/low volatility; diversification through low correlation to other asset classes, a potential deflation hedge.

- Bonds and notes issued by the US Treasury, federal government agencies, corporations, and foreign governments and corporations, diversified across quality, sector, duration and geography. May also include alternative strategies that use derivatives and leverage.

**Okabena Fixed Income Fund, LLC – Tax-Exempt Client**

### Other Methods of Analysis

We utilize industry standard software programs in our modeling and analytics, including software designed for performance- and holdings-based attribution analysis, as well as portfolio optimization, stress testing, and scenario analysis. Each of our equity sub-managers' security holdings are available to us through direct links to that manager's custodian, enabling us to monitor manager and fund-level equity performance in real-time.

Given our use of alternative asset class (hedge fund) strategies, we have contracted with one important external research provider, Albourne America, LLC (Albourne). Albourne focuses exclusively on comprehensive due diligence and quantitative analysis of hedge funds located around the world. This resource comes at considerable expense but effectively adds over 100 analysts solely dedicated to a front-to-back review of each fund's management team, systems, risk controls, compliance, third-party relationship verification, and review of operational processes. The use of Albourne permits us to perform deep quantitative analysis of hedge fund managers individually, and to analyze how managers' investment styles interact, allowing us to control the expected volatility of our hedge fund strategy as a whole. It is noted however, the ultimate decision to invest in any of the funds which Albourne investigates is always ours. Albourne will not necessarily provide a due diligence report on every hedge fund in our investment program, and no due diligence report is ever final, since the process is, by its very nature, an evolving one. Certain hedge fund analysis is conducted internally by our investment professionals.

We analyze the current business cycle, central bank policy, prevailing market trends, the regulatory and political environment, as well as other factors. There are a number of important "macro" factors which we consider but which are difficult to analyze with any certainty, (for example, political developments and severe weather.)



## Risk Management

Risk management policies and procedures do not imply low risk, and there can be no assurance that even robust risk management will mitigate or prevent the OIS-managed Funds from experiencing significant losses. All investment programs carry the risk of loss and there is no guarantee that any investment strategy will meet its objective.

OIS-managed Funds' overall portfolios are reviewed on an ongoing basis in an effort to maximize returns relative to their risks. The sub-managers in the portfolio are under ongoing review and analysis, ensuring that each continues to have investment merit and is appropriately sized, given its strategy and the market environment. We employ a comprehensive "initial" due diligence process as well as "ongoing" due diligence for sub-managers in our investment program.

### Portfolio Level Risk

Portfolio level risk is broken down into:

- *Specific Idiosyncratic Risk* – risk that is unique to a particular investment, whether it is an individual security or investment manager, and
- *Systematic Risk* – also known as "market risk" which is driven by factors that are common to all securities in a particular market or asset class, and cannot be eliminated by diversification within that market

### Diversification & Risk Management

Diversification is the primary tool of overall risk management and control. Portfolios are diversified across multiple asset classes, and across multiple investment strategies within each asset class. Where appropriate, the specific risks associated with individual investment managers will be reduced by diversifying across multiple managers. The systematic risks of specific asset classes will be reduced by investing in other asset classes with low correlations (e.g., the systematic risk of investing in stocks will be reduced by also investing in bonds).

Additionally, we have identified the following risks of our advisory business and controls to mitigate those risks:

RISKS	Enterprise Risk Management Committee		
	Regulatory Sanctions Reputational Damage	Valuation Errors Reporting Errors Misappropriation of Assets	Loss of Client Capital Over-concentration of Assets Sub-manager Fraud
CONTROLS	Enterprise Risk Management Committee		
	<u>Compliance</u> SEC Oversight Internal Compliance Program External Compliance Review External IT Security Assessment Culture of Compliance Code of Ethics Insider Trading Policy Industry Memberships	<u>Operations</u> Integrated Back-office Platform - Total Return (SS&C) Robust Internal Controls Critical Function Back-up Policies Valuation Committee Oversight Fund Audits Corporate Audit Business Continuity Plan	<u>Investment Management</u> OIS Investment Committee Asset Allocation Policy Ranges Manager/Strategy Diversification Due Diligence (Initial & On-going) Albourne: Hedge Fund Specialist Regular Sub-manager Site Visits Position-level Transparency - FactSet & Private i OIS Dashboard / Scorecard

Investment Constraints

In addition to risk and return objectives, certain constraints are taken into consideration in the investment planning process, based on the unique circumstances of individual clients and our operating structure:

**Liquidity** – within the context of a client’s IPS, liquidity has two distinct meanings. The first refers to the regularity of cash flows into and out of OIS-managed Funds. Liquidity, in this sense, determines the frequency with which portfolios can be rebalanced and clients can add to (or withdraw) the assets we manage. The other meaning of the term liquidity refers to the underlying investments held within the vehicles we manage, and determines the efficiency with which the true market value of an investment can be realized. In this sense of the word, liquidity can be thought of as a spectrum – ranging from US Treasury bills, which can be bought or sold for cash with same-day settlement, to limited partnerships of private market investments, which draw-down and distribute funds over several years. Clients should be aware of certain liquidity constraints in the OIS-managed Funds. For further detail on liquidity, see our confidential offering memorandum.

Our objective is to manage overall liquidity at the portfolio level in a way that maximizes flexibility (for us and clients), without constraining the ability to make sound, long-term investment decisions.

**Tax Efficiency** – For many of the portfolios we manage, tax liabilities on income and realized capital gains can dramatically affect long-term performance. There are active steps we take to reduce the tax liability of the overall portfolio, including “harvesting” tax losses when possible. Tax considerations are an important part of the investment planning process, but it is anticipated that very few major investment decisions will be made purely for tax-related reasons.

Our objective is to maximize tax efficiency at the overall portfolio level.

**Legal and Regulatory** – A thorough knowledge and understanding of the legal issues pertaining to the management of investment portfolios is critical to the long-term success of our investment program. Several of the OIS-managed Funds have legal constraints that dictate the types of clients that can invest in them, as well as the types of investments the vehicles themselves can make. Moreover, as a registered investment adviser, we are subject to government regulation, and must take active steps to demonstrate compliance. Specific legal considerations may be taken into account at the individual client level as well.

Our objective is to maximize flexibility and access to the OIS-managed Funds for as many clients as possible, while maintaining legal boundaries and remaining in compliance with all relevant regulations.

Material Risks of OIS’ Strategies

Due to the open architecture, “manager of managers” theme presented throughout this Firm Brochure, clients should be aware that by investing in the OIS-managed Funds (the “Funds”), they are relying on our discretionary market judgment of investing in a wide range of strategies and markets, as well as investing in positions with a wide range of liquidity and durations. The risk strategies described below generally are at the sub-manager level or as defined within the scope of the risk category.

The following is a summary of some of the material risks associated with the strategies expected to account for portions of the Fund's investments, some more significant than others. Although no summary can fully describe all of the risks associated with an investment in the Funds, the confidential offering memorandum for the Funds contains a more complete description of the risks associated with an investment in the Funds.

*Reliance on OIS and Mr. Neimann* – The operations of the Funds are dependent upon OIS, and the operation of OIS is dependent on the services of Mr. Neimann, OIS' Chief Investment Officer. Were Mr. Neimann's services to become unavailable, clients should be assured the Funds are positioned to permit the necessary timeframe to secure another qualified Chief Investment Officer. Meanwhile other investment professionals are qualified to manage the daily operations of OIS and the Funds. The Funds, however, may experience minimal disruption, if any, to investment strategy implementation.

*Importance of Market Judgment* – Although we use fundamental analysis in evaluating the economic components of certain prospective investments, strategies are predominately not systematic; the market judgment and discretion of investment personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable an investment strategy becomes.

*Fundamental Strategies* – Fundamental analysis which suggests that markets are imperfect and that mispricings can be identified between prevailing market prices and those indicated by underlying fundamental data is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting prices based on such information. Furthermore, even if OIS or its sub-managers can successfully identify mispricings, there is the additional uncertainty of predicting the duration of such mispricings and, accordingly, when or whether it will be profitable to invest so as to profit from them. Fundamental analysis is subject to significant losses when market sentiment leads to market prices being materially discounted from the level indicated by fundamental analysis or technical factors, such as price momentum or option expirations, dominate the market.

*Directional Bias* – OIS and sub-managers' tactical asset allocation evaluates and anticipates market risks and attempts to capitalize on market opportunities. When merited, we will make short-term tactical shifts away from long-term strategic allocation targets within and across the Funds. Tactical shifts can be *bigger picture* (between asset classes – overweight equities and underweight bonds) or *smaller in nature* (within asset classes – temporarily favoring Asian versus European equities relative to their market benchmark weightings). We monitor the markets and client portfolios daily in an effort to identify opportunities based on short-term mispricings or other anomalies. This type of directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Often the price movements will be determined by unanticipated factors, and even if the determining factors are correctly identified, OIS' or sub-managers' analysis of these factors may prove inaccurate, in each case, potentially leading to substantial losses. Predicting future prices is inherently uncertain and the loss incurred, if the market moves against a position, will 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.

*Technical Strategies* – While the investing strategies utilized by the sub-managers are primarily fundamental, they also employ technical factors in their strategies and analysis such as the analysis of

historical and current market data. Technical strategies are subject to the risk that unexpected fundamental or other factors may dominate the market during certain periods. Furthermore, the influx of different market participants, structural changes in the markets, the introduction of new financial products and other developments could materially adversely affect the profitability of technical strategies.

*Relative Value Strategies* – Although our investment management approach is principally fundamental, the Funds may acquire relative value positions if OIS or its sub-managers identify mispricings between related assets. Although relative value positions are generally considered to have a lower risk profile than directional, as the former attempts to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame in which the Funds are able to maintain their positions. Even pure “riskless” arbitrage can result in significant losses if the arbitrage cannot be sustained until expiration. To the extent that the Funds will use relative value strategies, these strategies will be subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of third-party valuation models. Market disruptions may also force the Funds to close out one or more positions.

*Difficulty in Translating Macro Economic Conclusions into Investment Positions* – Having reached a macroeconomic conclusion regarding the future price level of a given asset, OIS or its sub-managers are then faced with the difficulty of identifying an efficient means of acquiring market exposure so as to profit from this conclusion. Not only can it be difficult to find a workable medium through which to express a macro conclusion, but also factors extraneous to that conclusion may influence the pricing of the chosen medium. OIS or its sub-managers may correctly identify a macro opportunity, but not capitalize on the opportunity and, in fact, incur material losses due to the investment assets chosen in an attempt to exploit the opportunity.

*Model Risk* – OIS’ and sub-manager strategies may require the use of their own quantitative valuation models, as well as valuation models developed by third parties made available to them. As market dynamics shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without recognizing that fact before substantial losses are incurred. There can be no assurance that OIS or its sub-managers will be successful in developing and maintaining effective quantitative models, and the necessity of continuously updating these models demonstrates that the past performance of the Funds may not be representative of the Fund’s future performance.

*Exchange Rates* – The Funds will invest in securities and instruments denominated in non-US currencies. Such investments are subject to the risk that the value of a particular currency will change in relation to the dollar. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in the relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. OIS or its sub-managers may seek to hedge these risks by investing directly in non-US currencies and buying and selling options, futures or forward contracts thereon. The Funds will not, however, attempt to hedge all, or even most, of the Fund’s exchange-rate risk, and even if the Funds do implement certain hedging strategies, there can be no assurance that such strategies will be effective.

*Duration of Investment Positions* – OIS or its sub-managers typically do not know the maximum or, often, even the expected duration of any particular position at the time of initiation. The length of time for which a position is maintained varies significantly, based on OIS and its sub-managers' judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses. Optimizing the probability of being able to exploit the market value of a mispriced asset returning to equilibrium requires holding periods of significant length, often many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price corrections or convergences. There can be no assurance that the Funds will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

*Short Sales* – As an integral part of investment strategies, certain sub-managers of the Funds will routinely sell investment assets "short." Short-selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred by the Funds. Furthermore, the Funds may be forced to close out a short position prematurely if a counterparty from which the Funds borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position. During the severe market disruptions following the bankruptcy of a number of banking entities in September 2008, securities regulators in a number of countries imposed bans on the short-selling of financial sector equities. These limitations were typically imposed on an "emergency" basis making it impossible for numerous market participants either to continue to implement their strategies or to control the risk of their open positions. Any future regulatory limitations on short selling could materially adversely affect the Fund's ability to implement its strategies.

*Hedging* – We will not, in general, attempt to hedge all market or other risks inherent in the Funds, and will hedge certain risks only partially, if at all. However, the Fund's portfolio composition will commonly result in various directional market risks remaining unhedged. We rely on diversification to control such risks to the extent that we believe it is desirable to do so, but the Funds are not subject to any formal diversification policies. Certain of our sub-managers will enter into hedging transactions with the intention of reducing or controlling risk. Even if they are successful in doing so, the hedging will reduce the Fund's returns. Furthermore, it is possible that that 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. The success of these hedging strategies will depend on OIS or its sub-managers' ability to implement such strategies efficiently and cost-effectively as well as on the accuracy of their ongoing judgments concerning the hedging position to be acquired by the Funds.

*Leverage* – Certain of the Funds will employ leverage, both through their borrowings and through the significant degree of leverage typically embedded in the derivative instruments in some of the sub-manager portfolios. Losses incurred on the Funds' leveraged investments increase in proportion to the degree of leverage employed. The Funds will also incur interest expense on the borrowing used to leverage its positions. To the extent that the assets of the Funds have been leveraged, the interest

expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by the Fund's portfolio fail to cover such costs, the net asset value of the Funds may decrease faster than if it had not engaged in such borrowing transactions.

*No Formal Diversification Policies* – Although diversification is an integral part of our overall portfolio risk management process, we are not restricted as to the percentage of the Funds' assets that may be invested in any particular issuer, industry, instrument, market, sector or strategy. In attempting to maximize the Funds' returns, OIS may concentrate the holding of the Funds in those issuer's industries, instruments, sectors or markets that, in our sole judgment, provide the best profit opportunities consistent with the Fund's investment objective. Consequently, a loss in any concentrated position could ultimately result in significant losses to the Funds.

*Developing New or Additional Investment Strategies* – We are continually developing and refining new strategies. The Funds will allocate a portion of their capital to developing strategies. These strategies may lose all or most of the capital allocated to them. We are not restricted from using the Funds' capital in developing and incubating new strategies, even if we have limited or no experience in such strategies. There can be no assurance that we will be successful in implementing these strategies or such other strategies that we may from time to time develop and implement for the Funds, or that the Funds will not suffer losses during the development stage.

*No Limitations on Strategies* – There are no material limitations on the investment strategies we may use when investing assets on behalf of the Funds. We will opportunistically implement whatever strategies we believe may be best suited to prevailing market conditions. Over time, the strategies implemented on behalf of the Funds can be expected to expand, evolve and change, perhaps materially. There can be no assurance that the various investment strategies which we expect from time to time to develop and implement for the Funds will be successful, or that strategies that have been successful will continue to be profitable.

*Dodd-Frank Act; Regulation of the OTC Derivatives Market* – The Dodd-Frank Wall Street Reform and Consumer Protection Act, referred to in this Firm Brochure as the "Dodd-Frank Act" became law in July 2010. The Dodd-Frank Act contains numerous far reaching reforms to the financial industry including, but not limited to, provisions that comprehensively regulate the OTC derivatives markets for the first time. Many of these reforms require regulatory rulemakings by various governmental authorities that have not yet been completed. It is possible that these rulemakings could impose additional direct or indirect costs on the Funds, limit the types of strategies that OIS' sub-managers may pursue, or adversely impact the desirability of certain classes of investments or the anticipated return on certain investments.

*Financing Arrangements; Availability of Credit* – OIS and sub-managers employ the use of leverage in certain Fund strategies and depend on the availability of credit in order to finance their portfolios. There can be no assurance that the Funds will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing to the Funds can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices,



termination of swap and repurchase agreements, and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel Funds to liquidate all or a portion of its portfolio at disadvantageous prices.

*Competition; Potential Strategy Saturation* – The Funds will compete with numerous other private investment funds as well as other investors, many of which have resources substantially greater than the Funds'. The amount of capital committed to alternative investment strategies has increased dramatically during recent years. At the same time, market conditions have become significantly more adverse to many such strategies than they were in previous years. The profit potential of the Funds may be materially reduced as a result of the "saturation" of the alternative investment field. "Global macro" investment approaches generally comparable to our strategies are attracting significant amounts of capital previously allocated to other alternative investment strategies, increasing competition in this particular strategy sector.

*Hybrid and Other Strategies* – Many of the strategies executed by us combine elements of more than one of the foregoing general strategy types or may represent a completely different strategy type. Often, in the course of implementing a particular strategy an opportunistic trade representing a different investment approach will be made.

*Trade Execution Risk* – Many of the trading techniques used by our sub-managers require the rapid and efficient execution of transactions. Inefficient executions can negatively impact, possibly materially, the profitability of the Funds' positions, and in certain cases cause the Funds to miss a limited life market opportunity entirely.

*Portfolio Turnover* – The Funds, in certain cases, invest on the basis of short-term market considerations. The turnover rate of the Funds' positions may be significant, potentially involving substantial brokerage commissions and fees. In addition, frequent trading may result in the Funds being "whipsawed" – trading out of positions starting to be profitable and into positions starting to be unprofitable.

*Counterparty and Custody Risk* – When the Funds invest in options, swaps, derivative or synthetic instruments, forward contracts, or other over-the-counter transactions, the Funds take a credit risk with regard to parties with whom they trade and also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marketing-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties may not benefit from such protections and expose the parties to the risk of counterparty default.

## **VI. Disciplinary Information**

Neither OIS nor any of its management personnel have been the subject of any legal or disciplinary events, since its inception and through the date on the cover of this Firm Brochure, that are material to an advisory client or a prospective client's evaluation of our advisory business or the integrity of management.

## VII. Other Financial Industry Activities and Affiliations

Neither OIS nor any of its management personnel are registered or have a pending application for registration as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading adviser or associated person of a futures commission merchant, commodity pool operator, or commodity trading adviser.

However, we serve as the Manager to several OIS-managed Funds, each a “fund of funds” that allocates certain of its assets to investee funds that currently, or may in the future, trade in commodity interests. We do not allocate any assets directly to commodity interest trading. Historically OIS has relied on regulatory exemptions that precluded registration with the Commodity Futures Trading Commission (CFTC) as a Commodity Pool Operator. Certain of these exemptions were rescinded January 1, 2013. Meanwhile, the CFTC has provided “No-Action Relief” to operators of funds of funds meeting certain criteria, delaying CFTC registration until the later of June 30, 2013 or six months from the date the Division issues revised fund of funds guidance. The OIS-managed Funds met the criteria, and informed the CFTC that it intends to rely on the No-Action Relief for nine of its funds. We will assess whether or not CFTC registration will be required when the final fund of funds guidance has been issued.

### Material Relationships or Arrangements with Financial Industry

Our parent, Okabena Company, is engaged in providing financial planning services to certain clients (i.e., direct lineal descendants of George Nelson Dayton), our taxable advisory client base.

We have entered into a Services Agreement with our parent, Okabena Company, effective January 1995. Pursuant to the Agreement, Okabena Company permits us the use of a portion of their business premises. We reimburse Okabena Company for our *pro rata* share of rent, utilities and related expenses. Okabena also provides us with secretarial, administrative, accounting and payroll services. We reimburse Okabena Company for the actual cost of such overhead in either case, or remunerate Okabena Company as otherwise agreed. The Services Agreement may be terminated by either party upon 90 days written notice. We, however, employ all personnel providing investment advisory services.

We do not currently have any relationships or arrangements that are material to our advisory business and clients with either a broker-dealer, municipal securities dealer, or government securities dealer or broker, investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund”, or offshore fund), other investment adviser or financial planner (other than our parent as described above), futures commission merchant, commodity pool operator, or commodity trading advisor, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, or sponsor of syndicator of limited partnerships.

### Recommend or Select Other Investment Advisers

We select sub-managers for the OIS-managed Funds we form and manage. As noted in the Fees and Compensation section of this Firm Brochure, we receive no type of compensation that would present a conflict of interest or that would give us an incentive to recommend any one investment manager over



another. For more specific details on this process, see the response in the Advisory Business section of this Firm Brochure.

## **VIII. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

As a US SEC-registered adviser, we have adopted a Code of Ethics pursuant to SEC Rule 204A-1. The Code sets forth basic principles to help guide the daily conduct of personnel<sup>2</sup> with particular focus on employee personal trading and receipt and use of material, non-public information. The Code includes a personal securities transaction policy and policies and procedures to detect and prevent insider trading. Specifically, the Code sets forth standards of ethical and business conduct expected of personnel and addresses conflicts that may arise from personal trading by personnel. The Code, among other things, requires compliance with the federal securities laws, reflects our fiduciary responsibilities and those of our advisory personnel, prohibits certain personal securities transactions and requires pre-clearance of other securities transactions. Additionally, the Code defines material and non-public information and the restrictions on trading on any material and non-public knowledge and sets forth the responsibilities of all personnel relative to insider trading. The Code also includes policies and procedures on serving as officers, trustees and/or directors or advisers of outside organizations and participating in outside business activities.

All personnel must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understand the Code and have complied with it. Any personnel in non-observance of the Code may be subject to termination.

Our Code of Ethics is available to clients and potential clients upon request.

### **Recommend Securities with Material Financial Interest**

#### Conflicts of Interest

Risk of potential conflict of interest is minimized due to our open architecture, “manager of managers” investment approach.

We recommend clients invest in OIS-managed Funds from which we receive compensation. Recommendations are made only after a thorough assessment of client objectives, tolerance for risk, liquidity needs, and suitability as outlined in IPS.

We do not engage in proprietary trading for the firm itself, but only in the context of purchasing interests in limited partnerships on behalf of the OIS-managed Funds for which we select and hire sub-managers. We may, on occasion, directly purchase or sell a security for one of the Funds we provide advice to, but primarily trading occurs at the underlying sub-manager level. We also employ separate account managers for the OIS-managed Funds, but again, trading occurs at the sub-manager level.

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<sup>2</sup> Officer, director or employee of OIS, or other person who, in connection with their duties, makes, participates in, or obtains information regarding client security information or whose functions relate to the making of any recommendation with respect to client accounts.

Consequently, we do not have the typical internal portfolio traders and trading desk that, for example, an adviser to separately managed accounts would have.

### **Invest in Same Securities Recommended to Clients**

There is an inherent conflict of interest between our fiduciary duty of best execution for our clients and the apparent self-interest of employees trading in the same securities contemporaneously. When trading for themselves, employees must comply with all of the fiduciary provisions outlined in our Code of Ethics.

In certain instances, employees are permitted to purchase and sell for themselves securities identical to those that we may hold in client portfolios (via underlying sub-managers), or that we directly hold in one of the OIS-managed Funds. In these instances, employees may not “knowingly” trade their own securities ahead of client trades, or while in possession of material, non-public information about a company or its operations, or about any security.

In addition, we have established an employee investment program where certain officers and employees of OIS and our parent, Okabena Company, are permitted to align their financial interests with those of advisory clients by investing their personal funds in the OIS-managed Funds. We do not see this as presenting any conflict of interest. Moreover, it demonstrates a strong conviction by employees in the Firm’s investment management philosophy.

In general, employees invest under the same terms and conditions as advisory clients and in accordance with the governing documents of each OIS-managed Fund and the practices and policies of OIS that are applicable to all clients. It is noted however, that we do not provide any direct investment advice to such participants and do not charge a management fee to such participants, apart from external expenses attributable to and charged directly to the OIS-managed Funds, as discussed in the Fees section of this Firm Brochure.

### **Personal Trading Policies**

The Chief Compliance Officer is charged with the review of all personal trading records of personnel on an ongoing basis (President reviews Compliance Officer’s trading). These reviews are documented and stress tested to ensure that personal trading is consistent with the Code of Ethics, and employees are not trading ahead of clients, or trading on inside information. Employees’ trades are generally small in scale, which do not impact the securities markets.

## **IX. Brokerage Practices**

In the “Manager of Managers” context referenced throughout this Firm Brochure, we have discretion and authority to determine the securities to be bought or sold and the amount of such securities to be bought or sold (primarily interests in limited partnerships and other commingled vehicles), in a manner consistent with each advisory client’s Investment Policy Statement (IPS) and/or in accordance with such limitations as the client may impose by notice in writing. Generally, we will be authorized via an Advisory contract to make the above determinations in accordance with client’s IPS, without client consultation or consent before a transaction is affected.

We do not act as a broker or agent by effecting securities transactions for compensation for any client, nor do we have any affiliation with product sales firms.

We generally have authority to select broker dealers and the commission rates to be paid. The primary consideration in placing portfolio transactions with broker dealers for assets under management (if applicable) where placement is discretionary with us is to obtain best execution. We attempt to achieve best execution by choosing brokers to execute transactions based on: (1) their professional capabilities, (2) the value and quality of the services and products they provide, and (3) the comparative brokerage commission rates which they offer as well as other relevant factors.

Since we are not in the business of daily/portfolio trading, when placing the occasional trade we will select a firm with proven integrity and financial responsibility, with best execution of orders at reasonable commission rates.

#### Cross Transactions

As described in this Firm Brochure, we have complete investment discretion with respect to securities held by the OIS-managed Funds. We have adopted policies and procedures governing the purchase or sale of securities from one OIS-managed Fund to another OIS-managed Fund (cross trade). This is not a common practice, and we would only seek to enter into such a transaction if we believed it was in the best interest of affected clients and the OIS-managed Fund(s). This is accomplished via a transfer of interest for value between two OIS-managed Funds, and we receive no remuneration for effecting the transaction. In accordance with our policy a cross transaction will be fair valued by the underlying sub-manager and disclosed to the affected clients prior to execution.

#### Trade Errors

In the course of carrying out trading and investing responsibilities on behalf of the OIS-managed Funds, where applicable, or in providing a courtesy trade to a client, investment personnel may make “trading errors” in executing specific trading instructions. Examples of trading errors include: buying or selling an investment asset at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy, or buying rather than selling a particular investment asset and vice versa. Our policy regarding trade errors requires that errors affecting a client’s account be resolved promptly and fairly. The intent of the policy is to at least restore any client account affected by a trading error to the same financial position the account was in immediately prior to the occurrence of the trade error.

#### **Research and Soft Dollars**

Our incentive is for clients to receive best execution to maximize our clients’ wealth; therefore, we elect not to participate in soft dollar arrangements.

We do not pay for any products, research or services from the firms with which we occasionally trade, nor are these items factors in determining the selection of any executing broker. We do not cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits (research or other services).

Some firms with which we may trade make general economic, company specific information, and/or regulator and compliance information available regardless of commissions paid, which we do receive in limited instances. The information received is not dependent on commission rates paid; therefore, it may give us incentive to receive such research over a clients' best interest in receiving most favorable execution. It is noted however, all clients generally benefit from such information received from third parties, as it is useful across all asset classes and strategies we employ.

### Brokerage for Client Referrals

We do not receive client referrals from any broker-dealer or third party as a result of selecting or recommending that broker-dealer to clients.

### Directed Brokerage

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer. However, on occasion, we may provide non-discretionary advice by placing a client approved/requested securities transaction with a broker-dealer selected by us. This is viewed as a courtesy trade for the client, rather than providing investment advice, since the client is requesting the trade. Likewise, we may honor a client request by placing a client approved/requested securities transaction with a broker-dealer of the client's choice. In that scenario, the client has removed the broker-dealer selection decision from us; therefore, we can provide no assurance of obtaining best execution for the client (e.g., the client may pay higher brokerage commissions because we may not be able to aggregate order to reduce transaction costs or client may receive less favorable prices).

### Commission Recapture Program

We participate in commission recapture through one of our custodian banks, The Northern Trust Company. We have designated The Northern Trust Securities, Inc. (NTSI) and its correspondent network of broker-dealer firms as preferred brokers for certain of our OIS-managed Funds. We have requested certain sub-managers to direct 30% of commissions, consistent with sub-manager's pursuit of best execution, and at their discretion, to NTSI and its eligible broker-dealer firms. Such commissions will be negotiated by sub-manager. The recapture amount for US equity security trades will be equal to 80% of the fee earned by NTSI and on International equity security trades 60% of the fee earned by NTSI. The commissions recaptured are posted directly by NTSI to the custodian account effecting the transaction, thereby reducing custodial fee charges to the sub-manager's account.

### Order Aggregation

Although we are a manager of managers, we may on rare occasions buy and sell the same securities for more than one advisory client simultaneously, when applicable. We may aggregate a transaction in the same security for those clients for whom we have discretion to trade. If a client's trade is aggregated with other client accounts, each client will receive the same price per unit. If different prices are paid for securities in an aggregated transaction, each client in the transaction will typically receive the average price paid for the block of securities in the same aggregated transaction on that day. If we are not able to fill an aggregated transaction, we will normally allocate the filled portion of the transaction to our client on a *pro rata* basis.

## X. Review of Accounts

The OIS Investment Committee (consisting of Douglas A. Neimann, President and Chief Investment Officer, and Eric L. Pirkel, Investment Manager) is jointly responsible for all advisory client accounts in which we exercise investment discretion.

The role of the Okabena Board of Directors is to ensure that the investment policies in place are adequate to meet the financial objectives of advisory clients, and that the investment process is capable of successfully implementing the policies. More specifically, the Board, in conjunction with the OIS Investment Committee, is responsible for the development, approval and **periodic review** of:

- Asset classes included for modeling and investment
- Capital markets expectations for each asset class
- Long-term strategic asset allocation targets, ranges and rebalancing protocols for the Model Portfolios
- Benchmarks for individual asset classes and the Model Portfolios

OIS and the Okabena Board review each of the above on an **annual basis** to confirm its continued relevance and validity.

Additionally, an Investment Advisory Committee, composed of six Okabena Board Members and the Chief Investment Officer of OIS, have oversight of the investment program implemented by OIS including reviewing, recommending and communicating investment policies and guidelines to the Board and monitoring the management of the investment program to ensure compliance with policies and guidelines in achieving performance objectives. However, the ultimate investment decisions made for the investment platform reside solely with the OIS Investment Committee. The Advisory Committee meets approximately four times per year.

### Investment Portfolio Review and Client Accounts

A formal portfolio review meeting is **held monthly**. Participants typically include the Investment Committee plus Investment Analyst (Dimitar Valchev), Asset Allocation Manager (Corinne Whelan), Managing Director (Deborah Weiss), Senior Investment Operations Analyst (Frank Matthews) and tax department liaisons, as well as other staff members as required. The purpose of the meeting is:

- A discussion of the market environment.
- A review of the asset allocations of **all advisory client accounts** to evaluate the tactical positioning of each account/model, ensuring it is as desired given the market environment, and not in violation of any account's prescribed range boundaries.
- A line by line item review of all positions in the Investment Program(s) to discuss recent performance and positioning of managers in the portfolio. Any notable organizational, portfolio management, and/or performance issues/changes are highlighted and discussed.

While ad-hoc discussions, analysis, and research **occur daily** regarding tactical positioning, as well as manager additions, deletions and re-sizing, many major decisions are presented at the monthly meeting, acted upon and recorded immediately following, in Investment Committee meeting notes.

### Investment Policy Statement Review

Upon initiation of a formal advisory client relationship, we will work with each client to establish and/or clarify individual investment objectives, constraints and preferences and document them in an Investment Policy Statement (IPS). The IPS will serve as the formal directive between the advisory client and us, and will be **reviewed jointly by both parties at a formally scheduled annual meeting**. Additional meetings are available upon request.

### **Regular Reports**

*Tax-Exempt clients* receive a **preliminary monthly flash report** summarizing estimated investment performance (via e-mail), approximately the 14<sup>th</sup> day of the month following. On approximately the 19<sup>th</sup> day of the month following, we deliver the **final flash report**, which incorporates final values for each of the OIS-managed Funds, including relevant market commentary and disclosure of significant portfolio manager shifts.

*Taxable clients* receive a **quarterly flash report** (via e-mail), approximately five weeks following quarter-end summarizing investment performance and results that are specific to the OIS-managed Funds, including commentary, where applicable.

Four times a year *all advisory clients* receive comprehensive **Quarterly Investment Reports** covering activity through the end of the most recently completed calendar quarter. These reports include extensive commentary, end of period asset allocation, and a detailed manager line-up, with notes on recent manager changes, manager weights, and manager-level performance.

### Client Reports Available via Okabena Web Site

Through password-protected access to Okabena's **secure website**, *tax-exempt clients* may review the valuation of the Funds in their specific portfolio, updated monthly. Quarterly Investment Reports are also accessible through the secure Okabena client website, where PDF copies are kept for two calendar years.

### Quarterly Conference Call via Web Cast

The month following the end of each calendar quarter, the investment team conducts a **conference call for all advisory clients**, where we review performance of the OIS-managed Funds, market themes, positioning and outlook. The call for taxable clients will not be hosted following the end of fourth quarter due to the annual investment review (see below). These calls are interactive with client questions encouraged. The calls are recorded for playback by client's whose schedules do not permit real-time participation.

### Annual Investment Review - February

We prepare an **annual investment review** in the form of a formal presentation covering our investment activities and performance results over the last year. *All taxable clients* are invited to attend this presentation. *Tax-Exempt clients* are given this presentation at their **annual review meetings**.

*Investment professionals are accessible to discuss and evaluate results with clients on a more frequent basis and welcome calls at any time.*

## **XI. Client Referrals and Other Compensation**

Neither OIS nor any of its employees receive any economic benefit, sales awards, or other prizes from any outside parties for providing investment advice to our advisory clients, nor does OIS compensate any person for client referrals in the form of arrangements with third party solicitors.

## **XII. Custody**

Under Rule 206(4)-2 of the Investment Advisers Act of 1940, we are deemed to have custody of the securities and other assets held in the OIS-managed Funds, even though we do not physically hold the securities and other assets. This is because we unilaterally have authority (via the Advisory Contract) to withdraw client cash from the OIS-managed Funds, move cash to other accounts, and hold client assets in the legal name of the OIS-managed Funds. We are exempt from many of the provisions of Rule 206(4)-2 because the OIS-managed Funds are audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed to each client in the OIS-managed Funds within 120 days or 180 days, as applicable, of the end of each Fund's fiscal year.

We may recommend certain Mutual Funds to a client outside of the OIS-managed Fund investment platform. In those instances, we have instructed the Mutual Fund administrator to send monthly statements of the client's account directly to the client. We urge those clients to compare those statements received from the Mutual Fund administrators carefully with the reports we send each quarter. The quarterly report received from us has a reminder notice similar to the following: Please compare this report to the statement sent by the Mutual Fund administrator.

## **XIII. Investment Discretion**

Pursuant to the governing documents of the OIS-managed Funds, we have complete investment authority with respect to all securities and limited partnership interests owned by the OIS-managed Funds. There are no limitations on this authority. This authority is conveyed by clients signing the Investment Advisory Agreement and by subscribing to the OIS-managed Funds in their subscription agreements and in the Fund's governing documents. However, it is noted client accounts are managed in accordance with a client's written Investment Policy Statement, which serves as a directive, and is observed in the management of their account.

## **XIV. Voting Client Securities**

We have accepted the responsibility and have full authority to vote the securities held by the OIS-managed Funds. In accordance with SEC Rule 206(4)-6, we have adopted proxy voting policies, procedures and guidelines reasonably designed to ensure that proxies are voted in the best interest of our clients. We will vote proxies on behalf of the OIS-managed Funds in the interest of maximizing investor value. To that end, we will vote in a way that we believe is consistent with our fiduciary duty and will cause the value of the issue to increase the most. We may also elect to abstain from voting if we deem such abstinence in the clients' best interests.



We may vote OIS-managed Fund proxies directly or we may (and do) delegate our proxy voting responsibility to sub-managers. In the case of sub-managed accounts, it is clearly stated in the pertinent investment advisory agreement or other governing document whether or not the sub-manager has proxy voting authority and responsibility.

Due to the delegation of voting rights to sub-managers, we annually review, on a sample basis, sub-manager proxy voting records and proxy voting decisions, to evaluate whether sub-managers are consistent with our clients' best interests and our proxy voting guidelines. Such reviews include random selections and may, from time to time, include targeted reviews of classes of sub-managers, or specific sub-managers based upon past performance or the amount of investable assets. We document and maintain records of all such reviews. It is noted that in some instances sub-managers may outsource their proxy voting to a third party service provider.

We follow procedures designed to identify conflicts or potential conflicts that could arise between our own interests and those of the OIS-managed Funds. If it is determined that any such conflict or potential conflict is not material, we may vote proxies notwithstanding the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, we may refer the proposal to the client, obtaining instructions from client on how to vote the proxy, obtain client ratification (client consent on how we propose to vote the proxy), use predetermined voting policy (policy must address that we are not exercising discretion), or use an independent third party to vote the proxy.

We require sub-managers voting proxies on behalf of the OIS-managed Funds, to retain all proxy voting records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, and a copy of any document created that was material to making a decision how to vote proxies. We maintain these same records for any proxies that we may vote ourselves, as well as a copy of any written client request for information on how we voted proxies.

Clients may request a copy of our proxy voting policies and procedures, as well as relevant proxy voting records, by making a request to Sherry Van Zee, Chief Compliance Officer at (612) 339-7151 or e-mail [svanzee@okabena.com](mailto:svanzee@okabena.com).

## **XV. Financial Information**

OIS does not have any financial impairment that will preclude the firm from meeting contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.

## **XVI. Other Investment Information**

### **Pricing and Valuation**

We seek to maintain accurate market valuations of the securities held in the OIS-managed Funds that we manage on behalf of client accounts. Underlying investments are typically structured as either separately managed accounts that may hold stock, mutual funds, debt, and/or derivatives directly, or as limited partnership interests.



We obtain regular pricing for the securities held in the OIS-managed Funds from reliable third party vendors e.g., custodian banks, Bloomberg, broker/dealers, underlying sub-managers, and/or fund administrators. In addition, we may determine fair values for securities for which market quotations are not readily available or when the price provided by a pricing source does not, in our view, represent fair value. The valuation of these underlying securities forms the basis for calculating the Net Asset Value (NAV), or fair value, of each OIS-managed Fund, the primary pricing input for valuing client accounts, and for calculating our investment advisory fee.

As a matter of policy, we value all securities held in the OIS-managed Funds and client accounts on a regular basis, and price all securities based upon the concept of fair value as described in Accounting Standards Codification 820 (ASC 820).

A Valuation Committee has oversight responsibilities over the proper execution of our Valuation Policy and approves all final values prior to publishing investment results. The Committee meets regularly to review significant accounting reconciling items, assess fair value determinations, and approve values.

The Committee is composed of a group of individuals from across business units that are sufficiently familiar with markets to be able to assess market information as an input to a fair value determination. Committee members are officers and employees of the firm and its parent. Current members are the CFO, members of the investment committee and investment operations, and other senior members of the firm, including the Compliance Officer.

### **Control Over Use of Material, Non-Public Information**

We encourage our investment professionals to visit companies in which they might invest and to meet with senior executives within these firms. Generally, those meetings are not open to the public. In discussions with corporate insiders or others (including fund managers, competitors, brokers), our investment personnel are expected to direct questions toward customary subjects of investment interest, such as current and long-range business and industry trends, production and marketing policies and programs, quality and depth of management, and financial standards and controls. The purpose of these meetings is not to seek material, non-public information, but to develop knowledge of the company and the industry in a manner consistent with applicable law.

While our investment professionals do not actively seek material, non-public information, they sometimes receive it, typically through meetings such as the ones described above or from a client or business contact with publicly traded securities, or otherwise. If this occurs, employees must contact our Chief Compliance Officer, who then reviews the situation. The Compliance Officer is authorized to take measures designed to protect our firm and our personnel from unlawful trading or the appearance of unlawful trading based upon that information. Those measures can include the imposition of information barriers or a restriction on trading in the relevant securities. We sometimes impose trading restrictions even in the absence of a legal requirement to do so, based on our determination that the interests of our firm or our clients are best served by avoiding even the appearance of trading on material, non-public information.

## **XVII. Business Continuity**

Our firm has developed a comprehensive business continuity and disaster recovery program (BCP). The BCP consists of various elements, which represent the processes for planning for and responding to a significant business interruption (SBI). The BCP is designed to enable the firm to meet its obligations to provide investment management services to its clients in the event of a SBI.

As a matter of policy, the BCP has been reasonably designed to enable the firm to recover and resume critical business operations and systems in a timely manner in the event of a SBI, such as: 1) safe-guarding personnel, client assets and company data; 2) establishing communications systems as quickly as possible; 3) promptly recovering the business tools needed to perform critical business functions; and 4) establishing a temporary work location and processes.

The firm is committed to maintaining the BCP by testing it annually, and modifying it as necessary, to reflect changes in the firm's business scope or processes.

## **XVIII. Conflicts of Interest**

Throughout this brochure, we have tried to identify for you the conflicts that arise in the ordinary course of our business. Some of those conflicts are inherent in any investment management business, while others are a result of our business model. We seek to avoid or minimize these conflicts where reasonably possible. Any conflicts that we cannot avoid are managed through policies and procedures that we believe are sufficient to protect the interests of our clients and to fulfill our fiduciary obligations to our clients.

## **XIX. Conclusion**

We hope this brochure has enhanced your understanding of our business practices. We remain committed, as always, to justifying the trust you have placed in us as your fiduciary.