

**FORM ADV PART 2A**

**FEDERAL WAY ASSET MANAGEMENT LP**

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**This brochure provides information about the qualifications and business practices of Federal Way Asset Management LP. If you have any questions about the contents of this brochure, please contact us at (253) 236-3141 or LColwell@fwamlp.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

**We refer to ourselves as a “registered investment adviser”. Registration does not imply a certain level of skill or training.**

**ITEM 2. MATERIAL CHANGES**

In this Item 2, we are required to identify and discuss material changes, if any, from our prior brochure which was filed on April 1, 2013. While this brochure contains changes and updates to certain information, we do not believe such updates constitute material changes since we last filed our brochure. However, persons reading this brochure are encouraged to read the entire brochure.

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#### **ITEM 4. ADVISORY BUSINESS**

Federal Way Asset Management LP (“Federal Way,” “us,” “we,” and “our”), a Delaware limited partnership, was formed in May 2011 and commenced operations on July 1, 2012. Our employees are based in offices in Federal Way, Washington and Vancouver, Canada.

We offer investment management services primarily to institutional clients, high net worth individuals and private pooled investment vehicles, the securities of which are offered to investors on a private placement basis. The services we offer include:

- Managing client portfolios with a focus on investments in alternative investment strategies, which include hedge funds, private equity funds and other investment vehicles, most of which are not registered under the Investment Company Act of 1940; and
- Monitoring overall client portfolios and, where granted discretion, using a variety of derivative financial instruments, such as options, swaps, forwards and futures contracts, to obtain or hedge various market exposures.

We also provide portfolio oversight services to clients, including:

- Assisting clients in the design and implementation of the architecture of overall investment programs, based on, among other things, the client’s financial circumstances, risk parameters, investment goals and cash flow needs;
- Providing recommendations with respect to liquidity management for the cash needs and goals of the client based on parameters and other information provided by the client; and
- Providing oversight, monitoring and review services with respect to the investment management services provided by third party investment advisers managing portions of a client’s assets.

We provide tailored advice to each client taking into account its investment objectives, needs and stated investment restrictions. Clients may impose restrictions on investing in certain securities or types of securities. Any such restrictions will be reflected in the client's governing documents, investment advisory agreement or other documentation applicable to the client account. In the absence of such restrictions, we have no formal restrictions on investing assets in any type of securities, investments or other assets. We make investments for clients in accordance with mutually agreed upon written guidelines and provide continuous supervision of client portfolios.

We primarily serve as an investment adviser to separately managed accounts. We also provide investment advisory services to a private pooled investment vehicle for which an affiliate serves as general partner. Securities in this fund are offered on a private placement basis to Federal Way and its principals, affiliates, employees, and related persons/entities, who qualify as accredited investors. In the near term, we anticipate also offering interests in the private pooled investment vehicle to certain qualified sophisticated investors unaffiliated with Federal Way.

### ***Wrap Fee Programs***

We do not participate in wrap fee programs.

### ***Assets Under Management***

As of December 31, 2013, we had regulatory assets under management of \$5,114,200,000 on a discretionary basis. We do not currently manage any client assets on a non-discretionary basis.

### ***Ownership***

We are principally owned by a private equity fund managed by Goldberg Lindsay & Co. LLC (“GL&Co”), a registered investment adviser, and by our management.

## **ITEM 5. FEES AND COMPENSATION**

### ***Management Fees***

We charge an investment management fee, which is generally negotiated, and may vary with each client. The agreed upon management fee will be set forth in the investment management agreement entered into with the client or, in the case of a fund, in the governing documents. Generally, our management fee for providing discretionary management services is based upon a percentage of the market value of assets under management and will be payable quarterly in advance, although we could enter into negotiated arrangements where our management fee will be paid quarterly in arrears. The management fee will be prorated for periods less than a full quarter and the client will be refunded any balance.

Our fee for other management services, such as designing investment architecture, liquidity management, and account oversight, monitoring and review are negotiated on a case by case basis with each client based on the services to be provided.

Fees charged to separately managed accounts are billed to the client, and we do not have the ability to deduct the fees from such client’s account. In the future, at the election of a client and to the extent permitted in our investment management agreement or ancillary agreements with a client, we may debit clients’ accounts to pay our management fees.

For our private investment vehicle, we charge a management fee in accordance with the terms and conditions set forth in the offering and organizational documents of the fund, based upon a percentage of the market value of assets under management. These fees currently range from an annual rate of 0.50% to 0.75% depending on the size of the investor’s subscription to the fund. Such fees are generally payable quarterly in arrears. We may debit the fund account directly for the payment of any such fee. We do not currently charge a management fee to investors in our pooled investment vehicle that are Federal Way employees.

## ***Other Fees***

Clients will be subject to the fees of the private investment vehicles in which their accounts are invested. Private investment vehicles typically charge a management fee based on the assets under management and a performance fee or allocation based on, or a carried interest in, the profits of the investment vehicle. Each client may also be subject to redemption fees, if applicable, as well as its pro rata portion of expenses in respect of each private investment vehicle in which it invests.

Clients may also incur other fees and expenses attributable to such client account. Such expenses may include, but are not limited to: (i) brokerage commissions and charges, trade commissions or spreads, (ii) custodian fees for maintaining brokerage and/or bank accounts and funds transfers, (iii) interest and commitment fees on loan and debit balances, (iv) income taxes, withholding taxes, transfer taxes and other governmental charges and duties, (v) fees of legal counsel, administrators, net asset value calculation agents, accountants, and independent auditors, (vi) costs of printing and distributing reports and notices, (vii) research, database and due diligence, technology and other software costs and expenses, (viii) blue sky fees, (ix) insurance costs, (x) regulatory filing fees, and (xi) consulting fees and expenses. These additional fees and expenses may be charged directly to the client by the applicable service provider or may, in certain circumstances, be advanced by us and debited from a client's account. Please see Item 12 – *Brokerage Practices*. These fees are separate and distinct from the management fees charged by Federal Way.

With respect to our pooled investment vehicle, it will generally bear all costs and expenses relating to its operations, including, but not limited to, the management fee; investment expenses, whether or not such investments are consummated (such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses); investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of, or due diligence regarding, the fund's investments, whether or not such investments are consummated, incurred by the Federal Way or the general partner); professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investments; fees and expenses relating to software tools, programs or other technology utilized in managing the fund (including, without limitation, third-party software licensing, implementation, data management and recovery services and custom development costs); research and market data (including, without limitation, any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); administrative expenses (including, without limitation, fees and expenses of the fund's administrator); legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax preparation expenses; costs related to errors and omissions insurance for the general partner and Federal Way; costs of printing and mailing reports and notices; entity-level taxes; corporate licensing; regulatory expenses (including, without limitation, expenses relating to the preparation and filing of Form PF and other regulatory filings); expenses incurred in connection with the offering and sale of the interests in the fund and other similar expenses related to the fund (other than any fees payable to any placement agent in connection with the offering of interests in the fund, if any, which will be paid by

Federal Way either directly or indirectly by reducing the management fees owed to Federal Way); indemnification expenses; and extraordinary expenses. In its capacity as an investor in portfolio funds, the fund also bears its pro rata share of the operating expenses and offering expenses relating to each portfolio fund and the fund will also bear its share of the expenses of any intermediate entity through which it invests.

Federal Way and/or the general partner has the authority to authorize the payment of other fees/expenses to third parties from the assets of the fund. To the extent that expenses borne by the fund are paid by Federal Way, the fund will reimburse us for such expenses. Such expenses may include costs and expenses incurred to provide certain administrative and investment-related services prior to the fund's commencement of investment operations. A significant part of these expenses consists of fees paid to professional service providers in the initial formation of the fund.

In cases in which multiple clients use or benefit from the same service, Federal Way endeavors to allocate such expenses among clients in a manner that is fair, equitable, and appropriate in light of the applicable facts and circumstances (generally on a pro rata basis).

Also see *Brokerage Practices* in Item 12 below.

Neither we nor any of our "supervised persons" accepts compensation for the sale of securities or other investment products.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Performance fees are fees based on a share of net profits on or capital appreciation of a client's assets. To date, we have not entered into any performance-based fee arrangements. However, we may in the future charge performance-based fees to some or all of our clients. A performance fee arrangement may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. In addition, we may receive such compensation with regard to unrealized as well as realized gains in a client's account. Any performance fee or allocation received by us will be in compliance with the requirements of Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") and Rule 205-3 thereunder.

Conflicts of interest may arise where one or more client accounts are charged a performance fee and others are not, because we may have an incentive to focus greater efforts on those clients that pay a performance fee. We are aware of, and have adopted and implemented policies and procedures intended to address, conflicts of interest relating to the management of multiple accounts, including accounts with varying fee arrangements, and the allocation of investment opportunities. Such allocation procedures were designed to ensure that all investment allocation decisions are being made fairly and equitably among accounts over time. Federal Way's controls are intended to ensure that clients are not favored or disadvantaged in order to promote the fair and equitable treatment of all clients. We may consider not only our clients' allocation objectives, but may consider specific circumstances relating to an account in determining appropriate allocations for each client. See Item 11 – "*Allocation of Investment Opportunities*".

Certain clients are treated as “plan assets” for purposes of the fiduciary responsibility standard and prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974, as amended, and the parallel prohibited transaction provisions of Section 4975 of the Internal Revenue Code of 1986. Certain clients may be limited or prohibited from certain investments and, accordingly, allocations of investments to clients that are “plan assets” or non-plan assets may vary due to the client’s ability or inability to make such investment.

## **ITEM 7. TYPES OF CLIENTS**

We offer investment management services to institutional clients (which may include, without limitation, trusts, U.S. and non-U.S. employee benefit plans, endowments, foundations, corporations, and other types of entities, including private funds of funds), high net worth individuals and a private pooled investment vehicle. Investors must generally meet the requirements for “qualified clients” under the Advisers Act to incur performance-based fees. In addition, each U.S. investor must generally be (i) an “accredited investor,” as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the “Securities Act”) and/or (ii) a “qualified purchaser,” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended, and must also meet other suitability requirements. Certain non-U.S. investors need not satisfy this requirement, so long as each non-U.S. investor is not a U.S. person, as defined in Regulation S under the Securities Act. We do not currently offer investment management services to retail investors.

The minimum account size for a separate client account, and requirements for opening or maintaining a client account, may vary and are negotiated on a case-by-case basis.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***Investment Management Services and Services Overseeing Third Party Managers***

Our investment strategy is based upon broad diversification, obtained primarily through investments in private investment vehicles applying a range of strategies, including alternative investment strategies. For those clients that have granted us discretion, we apply derivative overlays including options, swaps, forwards and futures contracts to obtain or hedge against market exposures. We have access to a broad range of third-party managers (the “Managers”) and apply risk assessment and portfolio risk controls. We use both quantitative and qualitative factors to analyze and monitor investment vehicles and their respective Managers, and look at numerous factors for each Manager and investment vehicle including:

- Strategy and methodology in light of their performance history and methodology;
- Performance history and performance versus applicable benchmark(s) and peers and with regard to consistency, volatility, and compounded return;
- Structure, including make-up and size, legal and accounting framework, prime brokerage relationships, trade execution capability, and potential conflicts of interest;
- Principals, including their personal and business history and background; and
- Alignment as determined in part by a Manager’s investment in the fund(s) it manages.



We also receive information, including reports and financial information, directly from each investment vehicle, which we analyze and monitor.

### ***Other Services For Investment Programs***

We analyze the client's financial circumstances and needs in the context of our experience, projections and analysis of asset allocation models. In advising on investment mandates, we apply our collective experience to assist the client in designing, adopting and adjusting, as necessary or advisable, a program with a variety of asset classes, strategies, goals and parameters tailored to the client's needs and circumstances.

For liquidity management, we analyze the client's current and projected cash needs, and make recommendations based on our analysis of the assets currently in the client's overall portfolio across all of its Managers and investments. In performing this analysis, we consider, among other things, asset classes in the portfolio, particular investment positions, market conditions, asset liquidity, the client's current and future investment commitments and, where known, investment plans of Managers. We recommend, where applicable, increases or decreases in the cash position of a client when we believe it to be in that client's best interest.

### ***Risk of Loss***

All investments involve the risk of loss of capital that clients should be prepared to bear. We believe that our investment programs, research techniques and derivative overlays moderate this risk over the long-term. However, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, including, without limitation, achievement of targeted rates of return. There can also be no assurance that client accounts will be able to fully invest their capital or that suitable investment opportunities will be available. The investment strategies undertaken by Federal Way are generally intended for long-term sophisticated investors who can accept the risks associated with investing in illiquid securities, including the possibility of partial or total loss of capital. The following is a description of certain of the principal risks that our client investment portfolios may face. The following risks do not purport to represent a complete explanation of all the risks of clients of Federal Way, and not all of these risks will be equally relevant to each client account at any given time. Prospective clients should consult their own legal, tax and financial advisers as to all of these and other risks prior to entering into an advisory relationship with Federal Way.

*Reliance on Key Individuals.* We are dependent on the services of certain key individuals. The loss of the services of any one such key individual could adversely affect our ability to continue in business and to manage our clients' accounts.

*Management Style Risks.* While we manage client portfolios based on our experience, research and proprietary methods, the value of client portfolios will fluctuate based on the performance of the underlying securities in which they are invested. Client portfolios are subject to the risk that our investment style is out of favor in the market.

*Risks Related to Investment Vehicles and Dependence on Managers.* The value of client portfolios will be based in part on the value of the investment vehicles in which they are invested, the success of each of which will depend heavily upon the efforts of their respective Managers. We will not have an active role in the day-to-day management of the underlying investment vehicles nor have the ability to approve the specific investment or management decisions, and we are therefore highly dependent on the expertise and abilities of the Managers. The death or incapacity of a Manager or its principals may adversely affect any given investment. When the investment objectives and strategies of a Manager are out of favor in the market or a Manager makes unsuccessful investment decisions, the investment vehicles managed by that Manager may lose money. A client account may lose a substantial percentage of its value if the investment objectives and strategies of many or most of the investment vehicles in which it is invested are out of favor at the same time, or many or most of the Managers make unsuccessful investment decisions at the same time. Client portfolios will be subject to restrictions on their ability to withdraw or reduce capital that has been invested with certain Managers. Therefore, we may be unable to react rapidly to market changes should a Manager fail to effect portfolio changes consistent with such market changes and/or our intentions. While we attempt to build a portfolio of Managers within a range of non-correlated investment strategies that we regard as likely to provide favorable investment opportunities in most economic environments, there is a risk that a Manager's performance will be more highly correlated to the broader markets than was anticipated. Furthermore, as the funds under management by a particular Manager increase, the Manager may have difficulty implementing an investment strategy which may have been successful in the past, or difficulty finding sufficient investment opportunities which are attractive. There can be no assurances that a Manager's future results will be as successful as its past performance.

*Managers Invest Independently.* The Managers make investment decisions independently of other third-party managers and may at times hold economically offsetting positions. Accordingly, there is the possibility that client accounts will indirectly incur transaction costs without accomplishing any net investment result. Moreover, Managers may be competing with each other for the same positions in one or more markets. Multiple Managers may hold large positions in a relatively limited number of the same or similar investments. Greater concentration of positions across multiple Managers likely will increase the adverse effect of any problems experienced in the market, sector, or industry in which the positions are concentrated. Though we endeavor to ensure diversification by selecting a wide range of Managers in non-correlated strategies, a substantial portion of these Managers may have flexibility to invest opportunistically when attractive opportunities arise, which may increase risks of concentration or competition.

*Manager Compensation Arrangements.* By engaging us to provide investment management services in respect of investments in private investment vehicles, clients will, in effect, incur the costs of two forms of investment management services, namely the services that we provide in identifying and selecting Managers, performing due diligence and making investment decisions, and the services provided by the Managers in selecting investments on behalf of the investment vehicles in which our clients are invested. Managers may be paid performance fees or incentive allocations related to the investment vehicles in which client portfolios are invested. Performance-based compensation arrangements may create an incentive for such Managers to

make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, because performance-based compensation is calculated on a basis that may include unrealized appreciation of client account assets, this compensation may be greater than if such compensation were based solely on realized gains.

*Economic Conditions.* Changes in economic conditions, including, for example, interest rates, inflation rates, employment conditions, competition, technological developments, political and diplomatic events and trends, and tax laws may adversely affect the investment vehicles in which client portfolios are invested. In addition, the securities markets have recently been the subject of severe volatility. While we perform due diligence on the investment vehicles in which we invest, economic conditions are not within our control and no assurances can be given that we can anticipate and act on adverse developments.

*Performance Fluctuations.* Clients may experience fluctuations in results from period to period due to a number of factors, including changes in the values of the clients' underlying investments, changes in the level of drawdowns on capital commitments, changes in the amount of distributions, dividends or interest paid in respect of investments, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which clients encounter competition in the making or investments or the underlying Managers encounter competition in their businesses, and general economic and market conditions. As an asset class, hedge funds and private equity funds have exhibited volatility in returns over different periods, and it is likely that this will continue to be the case in the future. Such variability may cause results for a particular period not to be indicative of performance in a future period.

*Illiquid and Long-Term Investments; Lack of Transferability.* Investments in private investment vehicles are generally illiquid investments that offer no, or only limited, withdrawal or redemption rights. Such investments are typically held for a number of years before they are sold. In some cases, the resale of such investments may be prohibited or limited by contract for extended periods of time, and as a result, we may not be permitted to sell such investments at a time we might otherwise desire to do so. In other cases, we may invest in investments that we believe either lack a readily assessable market value or should be held until the resolution of a special event or circumstance to maximize returns. Though generally carried on the books at "fair value," there is no guarantee that fair value would represent the actual value that will be realized on the immediate or eventual disposition of the investment. A redeeming investor from a fund with illiquid investment shares corresponding to an illiquid investment will generally not receive any redemption or withdrawal proceeds in respect of such illiquid investment shares or interests until the related illiquid investment is realized or deemed realized. It is unlikely there will be a trading market for investments in private investment vehicles, and the sale of any such investments may be possible, if at all, only at substantial discounts. Even with respect to more liquid investment strategies, there is a risk that due to market conditions, one or more Managers may be unable to honor a withdrawal request and will, as a result, impose a gate or suspend withdrawals for an indefinite period of time. Alternatively, under certain circumstances, an investor may receive in-kind distributions from underlying fund portfolios. Such investments so distributed may not be readily marketable or salable and may have to be held by such investor for an indefinite period of time.

*Failure of Other Investors to Meet Capital Calls.* To the extent that our clients invest in private equity or hybrid investment vehicles subject to a drawdown structure, failure by one or more other investors to meet a capital call of a Manager could have adverse consequences for our advisory client accounts. In some circumstances, the third-party investment vehicle may be permitted to require its investors to contribute additional capital to satisfy the shortfall caused by a defaulting party. If the Manager is unable to raise sufficient capital to consummate a proposed investment, it may not be able to diversify its portfolio, which could adversely affect performance results and/or result in the investment vehicle's investments being concentrated in relatively few properties or regions. Furthermore, the investment vehicle may not have sufficient capital to make anticipated contributions capital to existing portfolio companies necessary to ensure their ongoing financial stability. If multiple investors fail to meet capital calls from a particular third-party investment vehicle, the vehicle could default on its obligations, potentially resulting in a lower return or a loss of the client's investment.

*Giveback Obligations.* The terms of an investment fund may require the return of distributions received from investments, including potentially distributions made prior to the time an advisory client account became an investor in such fund, upon the occurrence of certain circumstances, including to satisfy any indemnification, reimbursement, contribution or similar obligation (including any obligation resulting from applicable law), or any other expense or obligation, of the investment fund. The Manager of such investment fund may set aside amounts otherwise distributable to investors for such purpose, should they arise, and amounts set aside to fund such payments will reduce the amount of funds available for distribution to an investor or for additional portfolio investments.

*Valuation.* Valuation of certain partnership or fund investments, and particularly private equity investments, in which we may invest on behalf of clients, may be difficult, as there generally will be no established market for these assets or for securities of privately-held companies which an underlying private equity fund may own. The overall performance of client accounts will be affected by the acquisition price paid by the underlying private equity funds for their interests in portfolio companies, which will be subject to negotiation with the sellers of such interests. In the absence of a readily ascertainable market price, assets of the underlying private equity funds will generally be valued by the general partners of such funds or the portfolio companies themselves. The valuation of such securities may create a conflict of interest for such general partners, as such assets may constitute a substantial portion of such underlying fund's investments and their value may affect the general partner's compensation. Although we implement steps to mitigate this risk, we may not have sufficient information to be able to confirm or review the accuracy of these valuations.

*Due Diligence Limitations.* We conduct due diligence to an extent deemed reasonable and appropriate based on the facts and circumstances applicable to each investment. When we conduct due diligence, the Federal Way team expects to evaluate a number of important issues in determining whether or not to proceed with an investment. These issues will vary depending on the type of investment opportunity presented, but may include business, financial, tax, operational, legal, and regulatory issues, among others. Outside consultants, legal advisers, and accountants may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment

regarding an investment, we will be required to rely on resources available, including information provided by the underlying Manager and, in some cases, third-party investigations. The due diligence process may at times be subjective with respect to newly organized funds or companies for which only limited information is available. In light of the foregoing, there can be no assurance that the due diligence process undertaken by Federal Way will reveal or highlight all relevant facts that may be necessary or helpful in evaluating a particular investment opportunity. There can also be no assurance that such an investigation will result in an investment being successful.

*Manager Operational Risk.* We conduct regular due diligence and monitor Managers to ensure adherence to stated investment philosophy and objectives. However, due diligence is not foolproof and there can be no assurance that our due diligence will be sufficient to detect operational issues or problems at a Manager. Information we receive from the Managers may not always be complete or accurate. Accordingly, it may not be possible for us to uncover fraudulent activity that may be perpetrated by one or more investment vehicles or Managers.

*Non-U.S. Investments.* A client may invest a portion of its assets in portfolio investments located in foreign jurisdictions. Such investments involve certain risk factors not typically associated with investments located in the U.S., including risks relating to (a) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the clients' foreign investments may be denominated, and costs associated with conversion of investment principal and income from one currency into another, (b) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less governmental supervision and regulation, (c) certain economic and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation, (d) obtaining foreign governmental approvals and complying with foreign laws, (e) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities and (f) less developed corporate laws regarding fiduciary duties and the protection of investors. A client's returns on domestic investments may not be indicative of the results it may achieve on investments located in foreign countries. Anti-fraud and anti-insider trading legislation in these countries may be rudimentary. The legal systems in these countries may offer no effective means for the clients to seek to enforce its rights or otherwise seek legal redress or to seek to enforce foreign legal judgments.

The foregoing risks will also apply to the investments made by portfolio funds to the extent that these underlying investments are located in foreign jurisdictions.

*Leverage.* Depending on their investment strategy, clients and Managers may employ leverage, subject to varying degrees. The use of leverage will magnify gains but will also magnify losses. The expense paid on borrowings will erode the income and gains generated by leveraged positions. If asset values decline, a Manager may be forced to unwind and liquidate leveraged positions at an inopportune time. Leveraged investment vehicles may be more sensitive to adverse business or financial developments or economics factors, such as changing interest rates.

*Risks of Concentration of Investments.* While we attempt to diversify portfolios among a range of Managers with different strategies, there is a risk of inadvertent excess concentration and, therefore, excess exposure to a particular issuer, security, industry sector or geographic region. Additionally, Managers may be relatively concentrated as to investments. Limitations as to strategy, amount of capital or analytical resources can lead to significant concentration practices among Managers. Concentration of investments in a limited number of issuers or securities, industries, industry groups or countries or regions can increase investment risk and portfolio volatility. Accordingly, client portfolios may be subject to greater risk of loss than if they were invested directly in a diversified portfolio of securities, and the failure or poor performance of any one Manager could have a material adverse effect on overall portfolio performance.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying and investing in private investment vehicles is highly competitive and involves a high degree of uncertainty. There can be no assurance that we will be able to identify and complete investments that satisfy our clients' investment objectives.

*Short Selling.* A Manager may engage in short selling (selling securities they do not own). While short selling may be used for risk management or hedging purposes, as well as to create profit opportunities, there is substantial risk to this strategy because the Manager may be required to cover its short positions (the purchase of the securities to replace those borrowed and delivered on sale) involuntarily or otherwise and there is no limitation on the potential upward movement of the purchase price. Short selling can also involve significant borrowing and other costs which can reduce the profit or create losses in particular positions.

*Options and Other Derivatives.* We and any Manager may invest for risk management and/or speculative purposes in options, financial futures and/or other derivative instruments (collectively, "Derivatives"). The amount of leverage and volatility on Derivatives and, therefore, potential for gain and risk of loss is substantially greater than that of the underlying interest. Derivatives may also be more volatile and less regulated than traditional debt and equity securities. Options trading entails an entirely distinct set of risks. Options positions may include both long positions, where the underlying portfolio is the holder of put (an option to sell a security at a specified price) or call (an option to buy a security at a specified price) options, as well as short positions, where the underlying portfolio is the seller ("writer") of an option. Although option techniques can increase investment return, they can also involve a relatively higher level of risk. The expiration of unexercised long option positions effectively results in the loss of the entire cost or premium paid for the option. The writing or selling of an uncovered put or call option can involve, similar to short selling, a theoretically unlimited risk of an increase in the cost of selling or purchasing the underlying securities in the event of exercise of the option.

*Hedging Limitations.* We and any Manager may employ a variety of hedging techniques, the extent and effectiveness of which may vary. Most hedging techniques will be directed toward general market risks or certain Manager risks. There may be investment risks that will not be hedged or necessarily capable of being hedged as a practical matter. Hedging techniques have a variety of limitations. Hedging against a decline in the value of a portfolio position by selling short, for example, does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain

from those same developments, thus moderating the decline in the overall portfolio positions' value. Hedging through market index options may only protect against an overall market downturn, as compared with price declines in specific securities. Hedge transactions generally also limit the opportunity for gain if the value of the portfolio position should increase, due to the hedging cost or price decline in the hedging position. We and any Manager may not seek or be able to establish a sufficiently accurate correlation between hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a portfolio from achieving the intended hedge or may expose the portfolio to risk of loss. Such losses can include losses on the hedged position, the attempted hedge position, or both, and could be substantial. There can be no assurance, therefore, that portfolios will be significantly hedged against investment risks or that such hedging strategies, if any, will prove successful.

*Futures and Options on Futures.* We and any Manager may invest in certain futures contracts, including stock index futures contracts, futures contracts on government securities, interest rates, foreign currencies, metals and energy products, and may trade options on such futures contracts, including purchasing call options, writing (selling) naked or covered call options and purchasing or selling put options on such futures contracts, and may also purchase or sell options on securities and securities indices. In addition, we and any Manager may enter into forward contracts, currency transactions and various swap and swap-like arrangements. Futures contracts markets are highly volatile and are influenced by a variety of factors, including national and international political and economic developments. In addition, because of the low margin deposits normally required in futures trading, a high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to a portfolio. Moreover, futures positions are marked to market each day and variation margin payments may be required to be paid to or by the underlying client account. Prior to exercise or expiration, a futures or option position can be terminated only by entering into an offsetting transaction. This requires a liquid secondary market on the exchange on which the original position was established. If a liquid secondary market does not exist for such futures or options, it might not be possible to liquidate the position. No assurance can be given that an active market will exist for the contracts at any particular time. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, we or a Manager, as applicable, could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses. In addition, the Commodity Futures Trading Commission (the "CFTC") and various exchanges impose speculative position limits on the number of positions a person or group may hold or control in particular commodities. Unlike trading on domestic futures exchanges, trading on foreign futures exchanges is not regulated by the CFTC and may be subject to greater risks than trading on domestic exchanges.

*Non-U.S. Futures Transactions.* Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign

exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the clients or a portfolio fund may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

*Swap Contracts.* A credit default swap (“CDS”) is a contract between two parties that transfers the risk of loss if a company defaults in its obligation to pay principal or interest on time or files for bankruptcy. In the event of a default, the swap may be terminated and the purchaser of credit protection will receive from the counterparty, the person who wrote the protection, a payment of the agreed amount. We and any Manager may purchase for client accounts credit default protection as a hedge, or write credit default protection with a view to receiving spread income. We and any Manager also may purchase for any client account credit default protection even though the client account does not hold the referenced instrument. A total return swap (“TRS”) is a two-party contract under which each party agrees to exchange with the other specified investment returns from investments or instruments. A TRS enables the client to gain exposure to an underlying credit instrument without actually owning the credit instrument. Generally, a total return (interest, fixed fees and capital gains/losses on an underlying credit instrument) is paid to a counterparty in exchange for the receipt of a floating rate payment. The TRS investor pays only a fraction of the value of the total amount of the credit instrument that is referenced in the swap as collateral posted with the counterparty, so that the TRS is a leveraged investment in the underlying credit instrument. Certain of the derivatives transactions in which we engage are “over-the-counter” (“OTC”) contracts between clients and third parties entered into privately, rather than on an established exchange. In general, there is less government regulation and supervision of these transactions than those entered into on organized exchanges. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, are generally not available in connection with OTC transactions. OTC transactions are specifically tailored to the needs of the counterparties and enable the counterparties to structure precisely the date, market level and amount of a given position, as well as ancillary terms, conditions, and restrictions. The counterparty for these agreements will be the specific firm involved in the transaction, rather than a recognized exchange, and accordingly the bankruptcy or default of a counterparty with which a client account trades OTC contracts could result in substantial losses. In addition, the relative lack of evaluation and oversight of OTC exposes our clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem with the counterparty and, as a result, there will be a loss in the investment. If the counterparty to a swap agreement defaults, then the client portfolio could lose the net amount of payments that it is contractually entitled to receive. If a client portfolio deposits collateral to support its obligation under a swap agreement, then the client portfolio could also lose those collateral deposits. Such counterparty risk is accentuated for contracts with longer maturities



where events may intervene to prevent settlement, or where we have concentrated our transactions with a single or small group of counterparties. Although we implement steps to mitigate such risks, and enter into transactions with counterparties we believe to be creditworthy, our evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and “foolproof” evaluation of the financial capabilities of swap counterparties and the absence of credit evaluation and regulatory oversight of market participants may increase the potential for such losses. In addition, the counterparties with which we establish such relationships will not be obligated to maintain the capacity extended to client accounts, and such counterparties could decide to reduce or terminate such capacity at their discretion. In such instances, we might be unable to enter into a desired transaction on behalf of a client at attractive rates or at all.

*Financing Arrangements.* In certain circumstances, we or our Managers may use leverage as part of our investment strategy. The use of leverage not only increases risk, but also results in significant investment exposure. There can be no assurance that a client will be able to maintain adequate financing arrangements or to avoid having to close out positions at losses which if held would have been profitable due to an increase in margin requirements. As a general matter, the banks and dealers that provide financing will apply essentially discretionary margin, haircut, financing as well as 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 government, regulatory, or judicial action, may result in large 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 counterparties. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants. The imposition of any such limitations or restrictions could compel us or our Managers to liquidate all or part of a client’s portfolio at disadvantageous prices.

*Assumption of Business, Terrorism and Catastrophe Risks.* Clients and portfolio funds may be subject to the risk of loss arising from exposure that they may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the clients and their underlying investors’ investments therein.

*Systemic Risk.* Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the clients and the portfolio funds interact, as well as the clients and the portfolio funds, are all subject to systemic risk. A systemic failure could have material adverse consequences on the clients and the portfolio funds and on the markets for the securities in which clients and portfolio funds, as applicable, seek to invest.

*Business, Legal, Tax and other Regulatory Risks.* Legal, tax and regulatory changes, as well as judicial decisions, could adversely affect our and Managers’ methods of doing business and costs of doing business. The regulatory environment for private investment vehicles continues to

evolve, and changes in the regulation of private investment vehicles may adversely affect the value of client portfolios. The financial services industry generally and the activities of private investment vehicles and their investment advisers, in particular, have been the subject of increasing legislative and regulatory scrutiny. In addition, securities and futures markets are subject to extensive statutes, regulations and margin requirements. Various U.S. federal and state regulators, including the SEC, the CFTC, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. U.S. or non-U.S. rules or legislation regulating investment vehicles or advisers may be adopted and the possible scope of any rules or legislation is unknown. For example, recently enacted regulatory changes related to swap transactions may have an adverse effect on swap transactions to which our clients may directly or indirectly be a party, and may affect our and Managers' ability to engage in similar transactions on behalf of clients in the future. There can be no assurance that these or any other regulatory changes will not adversely affect our client portfolios and the way in which we do business generally.

*Technology Risk.* Our strategies are dependent in part on information systems and technology. Any failure or deterioration of these systems or technology due to human error, data transmission failures, or other causes could materially disrupt our operations. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services that we, or that third parties with whom we do business, use or affecting one of our offices, may affect our ability to continue to operate our business without interruption. We depend on the reliability and functionality of our computer systems, which by their nature are subject to a number of inherent and unpredictable risks. For example, from time to time, there may occur material errors in software programs that are either unrecognizable or not recognized for significant periods; software and/or hardware may malfunction or degrade; telecommunications failures, power loss or natural disasters may occur; and services provided by third party vendors may be interrupted. Although we have back-up facilities for our information systems as well as business continuity plans and protections in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or infrastructure disruption. In addition, insurance and other safeguards might only partially mitigate the effects of such a disaster or disruption. Further, we rely on third-party service providers for certain aspects of our business, including certain administrative and accounting operations with respect to our client accounts. Any interruption or deterioration in the performance of these third parties could impair the quality of client account operations.

*Non-U.S. Investments.* We and Managers may invest portfolios globally. Foreign securities involve risks not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, (ii) differences between the U.S. and foreign securities markets, (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation, (iv) certain economic and political risks, (v) obtaining foreign governmental approvals and complying with foreign laws and (vi) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. Furthermore, the legal systems in these countries may offer no effective means for us or a Manager to seek to enforce rights or otherwise seek legal redress.

*Emerging Markets.* We or our Managers may trade and invest in securities of companies or funds domiciled or operating in emerging countries. The securities markets of emerging countries are substantially smaller, less developed, less liquid and more volatile than the securities markets of the United States and more developed countries. Disclosure and regulatory standards in many respects are less stringent than in the United States and other major markets. There also may be a lower level of monitoring and regulation of the markets and the activities of investors in certain emerging markets, and enforcement of existing regulations can be extremely limited. In addition, certain governments may require approval for, or otherwise restrict, the repatriation of investment income, capital or proceeds of sales of securities by foreign investors. War, governmental intervention, lack of capital, corruption, poor corporate management and limited resources are also common risks associated with investing in these markets.

*Currency Risk.* We or our Managers may hold investments on behalf of clients denominated in currencies other than the currency in which the client account is denominated. Currency exchange rates can be extremely volatile, and a variance in the degree of volatility of the market or in the direction of the market from our expectations may produce significant losses to client accounts. We or our Managers may attempt, in certain circumstances, to hedge all or any portion of the currency exposure of a client account. There can be no assurance that we or our Managers will be able to implement a successful strategy to hedge exchange rate risks or that appropriate instruments to hedge such risks will be available to us or our Managers. Furthermore, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in any particular currency, because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. To the extent unhedged, the value of a client's assets will fluctuate with currency exchange rates. Such fluctuations could have a material adverse effect on a client account.

*Non-Recourse Risk.* The governing agreements of investment funds in which we may invest on behalf of clients may limit the circumstances in which a Manager can be held liable to investors. As a result, investors may have a more limited right of action in certain cases than they would in the absence of such provisions.

*Receipt or Possession of Material Non-Public Information.* Federal Way, in the course of its investment management and other activities, may come into possession of confidential or material non-public information about issuers, including issuers in which our clients have invested or have exposure through underlying investment vehicles. We are prohibited from improperly disclosing or using such information for our own benefit or for the benefit or any other person, regardless of whether such other person is a client. We maintain and enforce written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to ensure that we are meeting our obligations to clients and remaining in compliance with applicable law. In certain circumstances, we may possess confidential or material non-public information that, if disclosed, might be material to a decision to buy, sell, or hold a security, but we will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, we will have no responsibility or liability to the client for not disclosing such information to the client or using such information for the client's benefit, as a result of

following our policies and procedures designed to provide reasonable assurances of our compliance with applicable law.

#### **ITEM 9. DISCIPLINARY INFORMATION**

None

#### **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

We are not registered, nor do we have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. We are not affiliated with any banks, broker-dealers or custodians.

We are also not registered, nor do we have any application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities.

We are currently registered with the Ontario Securities Commission and the British Columbia Securities Commission as a portfolio manager, investment fund manager, and exempt market dealer.

We are principally owned by private equity funds managed by Goldberg Lindsay & Co. LLC (“GL&Co”), a registered investment adviser, and by our management, and we may recommend to our clients investment in one or more of GL&Co’s private equity funds that may be formed and open to accepting capital commitments. Certain principals of GL & Co have invested in a pooled investment vehicle managed by Federal Way.

Since January 1, 2013, we have served as the investment adviser to a private pooled investment vehicle for which an affiliate serves as general partner. Securities in this private pooled investment vehicle are offered on a private placement basis to Federal Way and its principals, affiliates, employees, and related persons/entities. In the near term, we anticipate also offering interests in the private pooled investment vehicle to certain qualified sophisticated investors unaffiliated with Federal Way. The proprietary interest of Federal Way, its employees, and its affiliates in this private pooled investment vehicle creates a potential conflict of interest for us to favor the fund in selecting investment opportunities before those offered to other clients.

One of our clients, Weyerhaeuser Company Master Retirement Trust (“WY Trust”), is entitled to designate one of four managers to our general partner’s board of managers, until such time as our client is no longer entitled to receive certain royalty payments from us. This relationship creates a potential conflict of interest for us to favor WY Trust in selecting investment opportunities before those offered to other clients.

The above conflicts of interest are mitigated by our implementation of an allocation policy and conflict of interest policies, which are summarized below.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

***Code of Ethics.*** Federal Way strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, and fair dealing. We have adopted a code of ethics in accordance with Rule 204A-1 under the Advisers Act and implemented procedures relating to, among other things, portfolio management and trading practices, personal investment transactions, insider trading, use of confidential and proprietary information, outside business activities, and other potential conflicts of interest applicable to our business. These policies and procedures are designed to detect and prevent or otherwise mitigate actual conflicts of interest, as well as outlining our high standard of business conduct and reinforcing each employee's role in discharging our fiduciary duty to clients. Our code of ethics is documented in our Compliance Manual ("Manual"), a copy of which (and any amendments) is provided to each employee. Each employee must certify that he or she has read, understands and agrees to comply with our Manual. Furthermore, each employee must certify annually that he or she has complied with the Manual. We review our compliance policies and procedures with all new employees and conduct periodic compliance training sessions with employees, either individually or in groups, as necessary or appropriate.

We require all of our employees to conduct themselves with integrity and dignity and act in a professional and ethical manner in all dealings on our behalf; use proper care and exercise independent professional judgment in the execution of their duties; honor principles of fair dealing; avoid or disclose actions or relationships that might conflict, or appear to conflict with, job responsibilities or the interests of our firm and our clients; and comply with all applicable federal securities laws.

Our Manual also requires all of our employees (except for certain employees involved only in clerical and administrative activities) ("Access Persons") to notify us of all of their securities holdings and accounts and submit to us within 30 days after the end of each calendar quarter securities transaction reports identifying all securities purchased and sold. Furthermore, we require that each Access Person re-affirm the accuracy of his or her list of accounts on record with us at least annually. These policies apply to any personal transaction involving equity or debt securities (or derivative products related to these securities). The policy does not apply to transactions involving, among other limited exceptions, open-end mutual funds or other instruments which afford the investor no discretion over individual securities transactions. Our Manual also requires that employees obtain our approval before investing in any initial public offering of securities or in any private placement of securities. We also restrict trading in certain stocks for which we believe we may have received, or have a heightened risk of receiving, material non-public information, by use of a restricted list. To date, we have treated all of our employees as Access Persons for purposes of the code of ethics requirements.

Our Manual sets forth guidance and policies pertaining to the identification, reporting, and management of conflicts of interest, which covers a wide range of topics. For example, we have adopted policies and procedures intended to prevent employees from being unduly influenced in their decisions by the receipt of gifts or other inducements from third parties, such as investment managers, trading counterparties, vendors, or investors. Employees are required to report certain

business gifts and are prohibited from accepting or giving certain types of business gifts. In addition, our Manual sets forth standards for business entertainment provided by third parties, outside business activities, political and charitable contributions, allocation of investment opportunities, and other business or personal practices that may have a potential to create an apparent or actual conflict of interest.

A copy of our code of ethics will be provided to any client or prospective client upon request.

***Conflicts of Interest.*** We manage accounts of clients with similar investment strategies. Certain conflicts may arise from the fact that we may give advice or take action with respect to investments of one or more of our clients that may not be given to or taken with respect to other clients. Accordingly, clients with similar objectives or strategies may not hold the same securities or instruments or achieve the same performance. Certain of our employees and affiliates have or will have the opportunity to invest their monies in a pooled investment vehicle managed by us. Subject to applicable laws and applicable client restrictions, from time to time we may buy or sell securities for clients at the same time we buy securities for the pooled investment vehicle managed by us. The pooled investment vehicle may hold the same investments as those held by one or more clients. Federal Way may be viewed as having an incentive to favor this fund with respect to allocation of investment opportunities. In order to minimize potential conflicts that could result in a benefit to Federal Way, we have adopted trade allocation policies and procedures described below. Federal Way will seek to allocate investment opportunities and trades to all clients on a fair and equitable basis over time.

***Allocation of Investment Opportunities.*** We may manage or advise multiple clients (including our pooled investment vehicle) that have investment objectives that are similar and that may seek to make investments or redeem from investments in the same securities or other instruments, sectors, or strategies. This may create potential conflicts, particularly in circumstances where the availability or liquidity of investment opportunities is limited.

We have developed allocation policies and procedures designed to mitigate any such conflicts. Our overall policy with respect to the allocation of investment opportunities is to treat all clients in a fair and reasonable manner and in accordance with contractual obligations and fiduciary duties. We do not favor any client over any other client for any reason, including but not limited to the fee structure or amount of fees payable by a client. Generally, our policy is to allocate suitable opportunities among clients with similar strategies fairly and equitably, to the extent practicable, over a period of time. Such allocations may be made on a pro rata basis where such is in the best interests of clients. However, we recognize that a pro rata allocation may not always be feasible or in the best interests of our clients. The following is a non-exhaustive list of factors we may consider in making allocation determinations, which may result in a conclusion that a pro rata allocation is not appropriate, depending on the facts and circumstances:

- Investment objectives, investment strategy, and asset mix of each client;
- Investment time horizon;
- Equalization of investments (for example, two or more clients may have different levels of investment in an opportunity due to historical or other factors that are no longer present)

- Cash availability
- Possible tax or regulatory ramifications or sensitivities
- Timing restrictions
- Overall risk profile of the opportunity relative to client risk tolerance
- Adjustments necessary to meet minimum investment thresholds
- Restrictions imposed by the Manager
- Availability of other appropriate investment opportunities
- Current investments held in client accounts similar to the applicable investment opportunity
- Such other factors as we determine to be relevant.

Among other things, certain clients may be limited or prohibited from making certain investments and, accordingly, allocations of investments to clients that are “plan assets” or non-plan assets may vary due to the clients’ ability or inability to make such investment. As a result of the various considerations above, there will be cases where certain client accounts receive an allocation of an investment opportunity when other accounts do not, or where allocations are made on a non-pro rata basis. The application of these considerations may cause differences in the performance of different client accounts that have similar strategies. In considering these factors, we will make subjective judgments in good faith, considering the best interests of each client, and will periodically review allocations to ensure that no account is receiving preferential treatment in the allocation process.

***Principal Transactions.*** Generally, we do not purchase or sell any securities for our own account to or from those of a client. In the event that we would consider entering into a principal transaction, we would comply with the requirements of applicable law, including Section 206(3) of the Investment Advisers Act of 1940, as amended.

***Cross Transactions.*** Under certain circumstances, we may arrange for a transaction between certain clients, in which one client buys a security from, or sells a security to, the account of another client (“cross transaction”). We may engage in cross transactions only after determining the transaction is in the best interest of each participating client and that the securities are suitable and appropriate for each client. We will generally not execute cross transactions in investments in private investment vehicles through a broker-dealer. However, other cross transactions, including as part of our overlay or hedging strategy, may be executed through a broker-dealer or futures commission merchant, in which case clients may be required to pay a brokerage commission or spread (e.g., mark-up or mark-down on the price of the security).

***Participation or Interest in Client Transactions.*** When we determine it would be appropriate for clients, including our pooled investment vehicle, to participate in an investment opportunity, we will seek to execute orders for all participating accounts on a fair and equitable basis, and the investment opportunities and trades will be allocated consistently with our fiduciary duty. See Item 11 – “*Allocation of Investment Opportunities*”.

***Participation in GL&Co Funds.*** We may from time to time recommend that a client participate in private funds sponsored by GL&Co, which is a related person of Federal Way. GL&Co and

its affiliates may receive substantial additional compensation in connection with any such investment by a client in addition to the fees that we receive from such client. In order to mitigate this conflict, we would provide disclosure and obtain a client's consent prior to having it make an investment in any private fund sponsored by GL&Co.

***Differing Interests of Individual Investors.*** Individual investors in our pooled investment vehicle may have conflicting investment, tax, or other interests with respect to their investments. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by the fund, the structuring of the acquisition of such investments, or the timing of disposition of investments. In such circumstances, we will prioritize the investment and other objectives of the fund as a whole, and not the investment or other objectives of any investor individually.

## **ITEM 12. BROKERAGE PRACTICES**

Our investment management services are generally focused on advice with respect to investments in private investment vehicles. In most cases, these investments are made directly through the issuer, without the involvement of a broker-dealer or with only the involvement of a single broker-dealer acting as placement agent. As such, investments in private investment vehicles directed by us generally do not involve brokerage determinations. As part of our due diligence process, where applicable, we review the brokerage and soft dollar arrangements of these private investment vehicles. Nevertheless, to the extent that we have discretion with respect to broker-dealer selection, either for an investment, any other security purchase or sale or any hedging strategy or position, we seek best execution for each trade. In determining best execution, we may consider a number of judgmental factors, including, without limitation, price; execution, clearance and settlement capabilities; quality of confirmations and account statements; the ability of the broker-dealer to settle the trade promptly and accurately; the financial standing, reputation and integrity of the broker-dealer; the broker-dealer's access to markets; research capabilities; market knowledge; any "value added" characteristics; and our past experience with the broker-dealer, past experience with similar trades and other factors. Recognizing the value of these factors, a client account may pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction.

Certain broker-dealers may provide us with research products and services, including research reports on particular industries and companies, economic surveys and analyses, advice from legal, strategic, financial and industry consultants and advisors, recommendations as to specific investment securities and other products and services providing lawful and appropriate assistance to us in the performance of our investment decision-making responsibilities. We may take into account in determining best execution a higher commission rate based on the value of such research products and services provided to us (so-called "soft dollars"). We have not entered into any soft dollar commitments or arrangements to date and do not have plans to enter into such arrangements in the future. To the extent that this changes, any use of soft dollars generated by clients to pay for research and research-related products or services is expected to fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Under Section 28(e), research products or services obtained with soft dollars



generated by one or more of our clients may be used by us to service the accounts of other clients, to the extent permissible under applicable laws and regulations.

Although we typically do not aggregate the orders of different clients, we may execute a single transaction and allocate portions of the resulting position among multiple clients where appropriate and practicable, if we believe such aggregation is in the interests of, or does not harm, clients. Clients participating in an aggregated order generally will receive the average price of any transactions executed pursuant to an aggregated order. Aggregated orders and the transaction costs associated with aggregated orders would generally be allocated pro rata among all participating clients in accordance with the level of their participation in the order, but adjustments may be made to such allocations, such as to avoid excessively small allocations. Our investment strategy generally does not entail investments in which clients would receive any benefits from (nor incur additional costs as a result of refraining from) aggregating trades.

### **ITEM 13. REVIEW OF ACCOUNTS**

Our Chief Investment Officer, Deputy Chief Investment Officer and Chief Financial Officer, together with other investment professionals, review client portfolios and accounts on a periodic, but not less than quarterly, basis. These reviews focus on appropriateness of the client's investments for the client's portfolio, compliance with any investment guidelines applicable to the client's portfolio, and the performance of the client's account. A review may also be triggered by any unusual activity or special circumstances.

On a quarterly basis, we generally provide to clients a written summary of account performance, including portfolio strategy exposure and manager allocations. However, the nature and frequency of such reports are negotiated with clients on an individual basis to suit the client's needs. All current clients also receive statements directly from, and/or have full direct access to the accounts maintained by, the applicable trustee/custodian.

Investors in our private pooled investment vehicle customarily receive annual audited financial statements and periodic capital statements.

### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Federal Way and its advisory personnel are not compensated for client referrals. To date, Federal Way has not engaged solicitors nor placement agents who are paid compensation for the specific purpose of providing client referrals. However, we have retained a consultant who provides assistance with analysis of strategic opportunities and the marketing of advisory services to prospective clients in Europe. Prospective client introductions may constitute an element of such services. Accordingly, Federal Way has entered into a written agreement with the consultant providing that any such introductions must be undertaken in accordance with applicable laws and regulations, including Rule 206(4)-3 under the Advisers Act. The consultant is paid a fixed annual fee as compensation for his provision of services.

From time to time, we may enter into arrangements with various third parties pursuant to which we will compensate solicitors or third party referral agents in connection with introductions and

referrals to prospective clients or investors. Fees payable to a solicitor or placement agent will be individually negotiated with Federal Way or its affiliates and may include a portion of management fees otherwise payable to Federal Way at no additional cost to the funds or investors. Any such solicitation or placement agent arrangements will be fully disclosed to affected clients or investors and will comply with the requirements of Rule 206(4)-3 under the Advisers Act, where applicable.

#### **ITEM 15. CUSTODY**

We do not serve as the qualified custodian of any client assets (including those of the pooled investment vehicle). Actual custody of client assets is maintained at unaffiliated banks, broker-dealers, and other qualified custodians. We do not have custody of client investments in unrelated private investment vehicles as they are subscribed to by the client, are generally uncertificated and each investment is recorded in the name of the client on the books of the respective investment vehicle issuer. We generally do not accept, receive, retain, or physically control any cash, securities, or other assets forming any part of client's portfolio or account. We have the ability to issue instructions in relation to the movement of client assets and cash, but only in accordance with the provisions of relevant agreements and mandates issued by the applicable client.

Generally, clients investing in private investment vehicles will be required to have a brokerage and/or bank account maintained with a qualified custodian and, pursuant to our investment management agreement with the client, to provide us with discretionary authority or power of attorney over such account(s) sufficient to enable us to invest the assets of the account in market overlay, hedging, and other transactions. Each such client is expected to receive or access statements from their custodians at least quarterly. Clients should carefully review their statements, including as to the amount of fees paid to us, and compare these statements to any account information provided by Federal Way. Clients should also promptly notify their custodian and us in the event they do not receive or access quarterly statements on a timely basis.

Federal Way is deemed to have constructive custody with respect to the assets of its private pooled investment vehicle client, because its general partner is an affiliate under our control, and we are authorized under certain of the client's governing documents to deduct certain fees from the account of each underlying investor in the fund, where applicable. We satisfy the applicable regulatory requirements related to custody by ensuring that (i) the client is subject to an annual audit in accordance with generally accepted accounting principles conducted by an independent public accountant registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and (ii) the audited financial statements are distributed to the client's underlying investors within 180 days of the fund's fiscal year end.

#### **ITEM 16. INVESTMENT DISCRETION**

We have been granted discretionary authority to manage the securities accounts of certain of our clients pursuant to investment management agreements entered into with such clients or pursuant to a power of attorney. We endeavor to buy and sell securities and other instruments for our clients on a discretionary basis in a manner consistent with each client's stated investment

objectives and restrictions. For clients who have selected our private investment vehicle overlay hedging strategy, we generally have discretion to direct the investments of client assets in hedging and other portfolio overlay transactions. Limitations on our investment discretion are set forth in each client's investment management agreement with us. Such limitations may include restrictions with respect to particular securities, allocations, or investment thresholds, diversification requirements, liquidity requirements, or such other constraints or guidelines as may be appropriate and applicable to the specific client.

#### **ITEM 17. VOTING CLIENT SECURITIES**

Our clients' governing documents and investment management agreements generally provide us with full discretion to vote proxies and securities held in client accounts in a manner that serves the best interests of all of our clients. We have adopted policies and procedures designed to prevent conflicts of interest from influencing proxy voting decisions that we make on behalf of advisory clients and to help ensure that such decisions are made in accordance with our fiduciary obligations to clients. In voting securities held in a client account, we will attempt to resolve any conflict of interest between the client and our business interests in the way that will most benefit the client. We reserve the right, on occasion, to abstain from voting a proxy or a specific proxy item when we conclude that the cost of voting outweighs the potential benefit or when we otherwise do not believe voting serves in the applicable client's best interest. We maintain a Proxy Voting Policy and a record of how we have voted proxies, each of which are available to clients upon request.

#### **ITEM 18. FINANCIAL INFORMATION**

Federal Way is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.

#### **ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not applicable.