

FORM ADV, PART 2A

FIRM BROCHURE

PHASECAPITAL LP

200 Clarendon Street, 25th Floor

Boston, Massachusetts, 02116

617-587-5806

March 14, 2014

This brochure provides information about the qualifications and business practices of PhaseCapital LP. If you have any questions about the contents of this brochure, please contact us at 617-587-5806. 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 PhaseCapital LP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.

Item 2. **Material Changes**

Not required for initial brochure.

Item 3. **Table of Contents**

| | <u>PAGE</u> |
|--|-------------|
| ITEM 1. COVER PAGE | |
| ITEM 2. MATERIAL CHANGES..... | 2 |
| ITEM 3. TABLE OF CONTENTS | 3 |
| ITEM 4. ADVISORY BUSINESS..... | 4 |
| ITEM 5. FEES AND COMPENSATION | 4 |
| ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT | 5 |
| ITEM 7. TYPES OF CLIENTS..... | 5 |
| ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS..... | 5 |
| ITEM 9. DISCIPLINARY INFORMATION..... | 15 |
| ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS | 15 |
| ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING..... | 17 |
| ITEM 12. BROKERAGE PRACTICES | 17 |
| ITEM 13. REVIEW OF ACCOUNTS | 18 |
| ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION | 19 |
| ITEM 15. CUSTODY | 19 |
| ITEM 16. INVESTMENT DISCRETION | 19 |
| ITEM 17. VOTING CLIENT SECURITIES | 19 |
| ITEM 18. FINANCIAL INFORMATION..... | 20 |

Item 4. Advisory Business

PhaseCapital LP, a Delaware limited partnership, (“PhaseCapital”) currently provides investment management services to one privately offered pooled investment vehicle: Phase II Fund LP, a Delaware limited partnership (“Phase II Fund”). The Phase II Fund’s investment objective is to maximize realized risk adjusted returns through tactical asset allocation across asset classes and investment strategies. For a further description of the investment strategy of the Phase II Fund, please see Item 8 below. It is anticipated that Phase II Fund Ltd., a Cayman Islands exempted company (“Phase II Offshore Fund”) will commence investment operations in 2014, which will have the same investment strategy as Phase II Fund. It is also anticipated that when Phase II Offshore Fund commences investment operations, both it and Phase II Fund will invest substantially all of their assets in Phase II Master Fund L.P., a Cayman Islands exempted limited partnership (the “Master Fund”), pursuant to a “master-feeder” structure. PhaseCapital will become the investment manager to the Offshore Fund and the Master Fund. PhaseCapital may also manage one or more separate accounts in the future.

PhaseCapital was established in February 2008 (f/k/a as Denham Quantitative Management LP). The general partner of PhaseCapital is Phase GP LLC (the “General Partner”). The principal owner of PhaseCapital and the General Partner is PhaseCapital Research LLC, a Delaware limited liability company (“PCR”). The principal owner of PCR is Stuart Porter.

PhaseCapital provides investment advice to Phase II Fund in a manner that is consistent with the investment objectives and strategies of the Phase II Fund, which are set forth in the confidential offering memorandum of Phase II Fund. Phase II Fund generally does not impose restrictions on PhaseCapital with respect to investing in certain securities or types of securities.

As of December 31, 2013, PhaseCapital managed approximately \$19.4 million in net assets on a discretionary basis. PhaseCapital does not manage any assets on a non-discretionary basis.

Item 5. Fees and Compensation

PhaseCapital receives a management fee (the “Management Fee”) from Phase II Fund, payable monthly in advance, in an amount equal to approximately 0.104% of the balance in each Limited Partner’s capital account at the beginning of each calendar month (1.25% annualized). No refunds of any Management Fees will be made. PhaseCapital, in its sole discretion, may reduce, waive or rebate the Management Fee with respect to the capital account of any limited partner including, but not limited to, affiliates and/or employees of PhaseCapital.

In addition to the Management Fee, Phase II Fund (and indirectly the investors therein) will bear all costs and expenses related to its investments and operations, including, without limitation, brokerage commissions and other transaction costs, clearing and settlement charges, custodial fees, margin and interest expense and commitment fees on debit balances or borrowings, borrowing charges on securities sold short, fees and expenses related to the provision of investment and financial data to PhaseCapital (*e.g.*, market data and electronic data feeds), expenses of professionals providing services to Phase II Fund, including legal, audit, accounting, tax and administration, organizational expenses, costs of any liability insurance obtained on behalf of Phase II Fund, costs of any litigation or investigation involving Phase II Fund

activities, indemnification expenses, regulatory costs, any issue or transfer taxes chargeable in connection with any securities transactions, any entity level taxes, regulatory filing and license fees, costs of reporting and providing information to partners and any extraordinary expenses.

Phase II Fund incurs brokerage and other transaction costs as described above. See Item 12 for further information regarding brokerage.

PhaseCapital and its supervised persons do not accept any compensation for the sale of securities or other investment products, including any interests in Phase II Fund.

Item 6. Performance-Based Fees and Side-By-Side Management

Investors in Phase II Fund are not currently charged a performance allocation.

Item 7. Types of Clients

PhaseCapital currently provides investment management services only to Phase II Fund. It is anticipated that Phase II Offshore Fund will commence investment operations in 2014, which will have the same investment strategy as Phase II Fund. It is also anticipated that when Phase II Offshore Fund commences investment operations, both it and Phase II Fund will invest substantially all of their assets in the Master Fund. PhaseCapital will then become the investment manager to the Offshore Fund and the Master Fund. PhaseCapital may also manage one or more separate accounts in the future. Currently, most of the investors in Phase II Fund are certain partners of PhaseCapital and/or certain of their affiliates.

Investors in Phase II Fund must each be (i) an “accredited investor” as defined in Regulation D under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and (ii) a “qualified purchaser” as that term is defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “1940 Act”). The required minimum initial investment in each of the Funds is \$2,000,000. Such minimum amount can be waived for any prospective investor by the General Partner.

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

Phase II Fund’s investment objective is to maximize realized risk adjusted returns through tactical asset allocation across asset classes and investment strategies. Phase II Fund will seek to achieve its investment objective by investing primarily in securities and derivatives that represent exposures to broad asset classes, such as index futures, exchange-traded funds and other derivatives that represent exposures to the performance of many securities. PhaseCapital will also consider certain factors relating to such asset classes, which may determine, for example, how broad the asset class will be (e.g., the S&P 500 Index v. the S&P 100 Index). Phase II Fund’s assets are allocated among such securities and derivatives depending on the type and quality of information identified by the strategies, the liquidity of the market for the security, and other factors. PhaseCapital believes that the approach to achieving risk-adjusted outperformance is the sizing and timing of exposure to particular classes and categories of securities and derivatives, in contrast to security selection within a class or category. As such, the kinds of strategies suitable for consideration include Tactical Trading (strategies that regularly adjust

exposure to particular market categories within the ranges selected by the asset allocation strategies by trading liquid instruments representing the category (*e.g.*, S&P 500 index futures) and Asset Allocation (strategies that determine the ranges of allocation of capital across multiple market categories (*e.g.*, asset class, geography, jurisdiction, size, industry and style). Phase II Fund may also invest directly in securities of individual companies and derivatives thereof.

PhaseCapital implements overall portfolio strategy by managing each of the individual strategies and the aggregate portfolio resulting from their combination. Each strategy maintains its own portfolio and as a strategy is exposed to new data the strategy will respond by determining a set of recommended changes to its portfolio, subject to its portfolio construction rules. Both individual strategies and the aggregate portfolio resulting from the combination of the individual strategies are expected to comply with PhaseCapital's targets for maximum market exposure, maximum expected drawdown, and other risk management factors that PhaseCapital will determine from time to time.

The set of recommended changes to each of the portfolios maintained by each of the Strategies define a set of trades needed to satisfy the recommendations. PhaseCapital will generate a set of trade orders, usually market or limit orders priced at or near current market prices, to satisfy the requirements of the portfolio changes for each of the Strategies. The notional value of all of the trade orders may substantially exceed the expected value of the trades needed to satisfy the recommendations of the Strategies. Phase II Fund expects to use leverage, which, with the exception of periodic intra-day and overnight fluctuations, is generally not expected to exceed 3:1 of the assets of Phase II Fund (both long and short), including certain of Phase II Fund's investments that may themselves economically represent leveraged positions (*e.g.*, certain ETFs, options, futures, and swaps). The cash balances of Phase II Fund may be significant from time to time and will vary as PhaseCapital may deem advisable. Although not anticipated currently, a portion of Phase II Fund's investment program may in the future include short selling.

Material Risks

Phase II Fund may be deemed to be a speculative investment and is not intended as a complete investment program. Phase II Fund is designed only for sophisticated persons who are able to bear the risk of an investment therein. Investing in securities involves risk of loss that investors should be prepared to bear.

Investment and Trading Risks. An investment in Phase II Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that Phase II Fund's investment program will be successful. PhaseCapital will be investing substantially all of Phase II Fund's assets in securities, some of which may be particularly sensitive to economic, market, industry, regulatory and other variable conditions. The markets in which Phase II Fund expects to invest have in recent years experienced significant volatility and losses and may be subject to uncertainty and volatility in the future. No assurance can be given as to when or whether adverse events might occur that could cause immediate and significant losses to Phase II Fund.

Proprietary Strategies and Software. PhaseCapital has developed proprietary strategies and software that expected to guide and facilitate the day-to-day investment selections for Phase II Fund. There are numerous risks associated with proprietary trading software generally, the strategies and the risk management software used by PhaseCapital. Certain of these risks are described herein. The strategies require significant real-time and historical data to be effectively analyzed. The ability of Phase II Fund to achieve its investment objective is, therefore, based in part on the ability of PhaseCapital to continuously receive such data as required by the strategies and the performance of the strategies as implemented. In addition, there is no assurance that the strategies will be effective in all market conditions or that PhaseCapital has considered all factors necessary for the strategies to function properly. There is also no assurance that risk management factors will be accurately or timely determined by PhaseCapital given changing market conditions. Accordingly, there are no assurances that Phase II Fund will not be exposed to the risk of significant losses, particularly if the underlying patterns of market behavior studied by PhaseCapital and which provide the basis for its statistical models change in ways not anticipated by PhaseCapital.

As the strategies and software are proprietary, an investor will not be able to determine the full details of Phase II Fund's investment process or whether the process is being followed. Although PhaseCapital intends to monitor its strategies and seeks to make enhancements and changes as necessary, there is no assurance that PhaseCapital will be able modify the strategies to adapt to changing market conditions or other factors. PhaseCapital and its affiliates will be required to attract and retain scientists, mathematicians and other professionals in connection with monitoring and enhancing the strategies and the software. The competition for attracting and retaining such professionals may be significant and there is no assurance that PhaseCapital and its affiliates will be able to continue to do so.

The proprietary software used in Phase II Fund's investment strategy are owned by an affiliate of PhaseCapital and licensed to PhaseCapital. Such software may be used by PhaseCapital and its affiliates for other funds or accounts they manage and they may also be licensed to third parties. If a third party successfully claims that any portion of the software infringes on its technology, it could have an adverse effect on Phase II Fund.

PhaseCapital expects to expand both current and additional universes (including in foreign markets) for Phase II Fund to invest in. There is no assurance that applicable strategies will be developed or that their implementation will be successful. Furthermore, although PhaseCapital only expects to use such strategies after successful back-testing, investors in Phase II Fund may not receive notice of such implementation of strategies or new universes and will have no right to consent thereto.

PhaseCapital may elect to disregard any trade recommendation generated by the strategies if, in the opinion of the Chief Executive Officer or Chief Investment Officer, such recommendation is based on information that is not representative of then-current risk, liquidity or other market conditions or factors. PhaseCapital also employs a rigorous research process to develop strategies and utilizes human judgment and the consideration of the portfolio characteristics of different strategies and the combinations thereof to guide the choice of which strategies and configurations to incorporate into the portfolio. There are certain risks associated with such

intervention and human judgment including that such person has sufficient facts to make an accurate determination to disregard a trade recommendation and select or develop the appropriate strategy and, given the expected rapid nature of trades, that such determination can be made in a timely manner.

Trade Execution and Costs; Frequency of Trading. Trade recommendations generated by the strategies will be made at intervals ranging from thirty minutes or less to one trading day or more and the particular strategy will generally determine the optimal size, type and price of trades. PhaseCapital expects that a significant portion, if not all, of its trades will be executed through electronic trading systems provided by brokerage firms and third parties.

Trades placed by electronic means are governed by the terms of the relevant electronic brokerage trading agreements and by exchange rules, if any. Risks associated with electronic trading include system failures, security breaches and inconsistent procedures and requirements among the trading systems. If the assets of Phase II Fund become significant and/or Phase II Fund trades in securities with smaller capitalizations, Phase II Fund may experience difficulties in executing trades at reasonable prices or in a manner consistent with the Trade Recommendations, as Phase II Fund's trades in a security could adversely effect its price and/or availability.

Exchange Traded Funds. Phase II Fund will invest in and may sell short shares of exchange traded funds ("ETFs") and other similar instruments. These transactions will be used to gain exposure to the general market or industry sectors and the performance of many securities. The use of ETFs will be an integral part of the Strategies. ETFs and other similar instruments involve risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices, or that the prices of stocks within a particular sector, may increase or decrease, thereby affecting the value of the shares of the ETF or other instruments.

Derivative Investments. Phase II Fund will also invest in derivatives, such as index futures. Derivative instruments, or "derivatives," include futures, options, swaps, structured securities, and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may expose Phase II Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Phase II Fund from promptly liquidating unfavorable positions and subject Phase II Fund to substantial losses.

Use of Leverage. PhaseCapital expects to leverage Phase II Fund’s portfolio through margin and other debt in order to increase the amount of capital available for investments. Although leverage increases returns to the Limited Partners if Phase II Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns to the Limited Partners if Phase II Fund fails to earn as much on such incremental investments as it pays for such funds. In the event that Phase II Fund leverages its portfolio, fluctuations in the market value of Phase II Fund’s portfolio will have a significant effect in relation to Phase II Fund’s capital and the risk of loss and the possibility of gain will be increased. In addition, when Phase II Fund utilizes leverage, the level of interest rates generally, and the rates at which Phase II Fund can borrow in particular, will be an expense of Phase II Fund and therefore affect the results of Phase II Fund. Leverage increases the risk of substantial losses (including the risk of a total loss of capital) and leverage can significantly magnify the volatility of Phase II Fund’s portfolio. This is particularly the case for Phase II Fund given the leverage it may use (as described below).

Phase II Fund may use short-term margin borrowing in purchasing securities positions. Such borrowing, if made, may result in certain additional risks to Phase II Fund. For example, should the securities pledged to brokers to secure Phase II Fund’s margin accounts decline in value, Phase II Fund could be subject to a “margin call,” pursuant to which Phase II Fund would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in value of Phase II Fund’s assets, Phase II Fund might not be able to liquidate assets quickly enough to pay off its margin debt.

With the exception of periodic intra-day and overnight fluctuations, the assets of Phase II Fund (both long and short) are generally not expected to be levered in excess of 3:1, including certain of Phase II Fund’s investments that may themselves economically represent leveraged positions (e.g., ETFs, options and swaps). The amount of leverage will be determined by PhaseCapital in its discretion, considering the nature of the investments, the terms of leverage that may be offered by sellers of investments and other factors it deems relevant. There is no assurance that leverage will be available to Phase II Fund on acceptable terms, if at all.

Short Sales. Although not currently anticipated, a portion of the investment program for Phase II Fund may in the future include short selling. Short sales are sales of securities Phase II Fund borrows but does not actually own, usually made with the anticipation that the prices of the securities will decrease and Phase II Fund will be able to make a profit by purchasing the securities at a later date at the lower prices. Phase II Fund will incur a potentially unlimited loss

on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a “long” position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to market events in recent years, including the temporary imposition of restrictions on short selling certain securities and current reporting requirements. Phase II Fund’s ability to execute a short selling strategy may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to such adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior trading activities of Phase II Fund. Additionally, the SEC, its foreign counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may from time-to-time impose restrictions that adversely affect Phase II Fund’s ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, Phase II Fund may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. Phase II Fund may also incur additional costs in connection with short sale transactions, including in the event that it is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and Phase II Fund is subject to strict delivery requirements. The inability of Phase II Fund to deliver securities within the required time frame may subject Phase II Fund to mandatory close out by the executing broker-dealer. A mandatory close out may subject Phase II Fund to unintended costs and losses. Certain action or inaction by third-parties, such as executing broker-dealers or clearing broker-dealers, may materially impact Phase II Fund’s ability to effect short sale transactions. Such action or inaction may include a failure to deliver securities in a timely manner in connection with a short sale effected by a third-party unrelated to Phase II Fund.

Non-U.S. Securities. PhaseCapital may permit Phase II Fund to invest in securities of non-U.S. issuers, including companies headquartered outside of the United States. Phase II Fund’s investments in securities and instruments in foreign markets involve substantial risks often not typically associated with investing in U.S. securities. Investments in foreign securities may be adversely affected by changes in currency rates or exchange control regulations, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of Phase II Fund’s assets denominated in that currency and thereby will have an impact upon Phase II Fund’s total return

on such assets. Phase II Fund may utilize options and forward contracts to hedge against currency fluctuations but there can be no assurance that such hedging transactions will be effective.

Investments in foreign securities will also be subject to risks relating to political and economic developments abroad, including the possibility of expropriations or confiscatory taxation, limitations on the use or transfer of Phase II Fund's assets and the effects of foreign social, economic or political instability. Foreign companies are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about such companies. Moreover, foreign companies are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Furthermore, foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their American counterparts. Brokerage commissions, dealer concessions and other transaction costs may be higher on foreign markets than in the U.S. In addition, differences in clearance and settlement procedures on foreign markets may occasion delays in settlements of Phase II Fund's trades effected in such markets.

Repatriation of investment income, capital and the proceeds of sales by foreign investors may require governmental registration and/or approval. Phase II Fund could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by the government of an emerging country.

Taxation of dividends, interest and capital gains received by non-residents varies among foreign countries and, in some cases, is comparatively high. In addition, some countries have tax laws and procedures that may permit retroactive taxation so that Phase II Fund could in the future become subject to local tax liability that it had not reasonably anticipated in conducting its investment activities or valuing its assets.

Hedging Transactions. Although Phase II Fund may engage in certain hedging activities to reduce its exposure to broad market movements, PhaseCapital does not expect to actively hedge Phase II Fund's portfolio, including seeking to hedge exposure to particular securities in the portfolio. Accordingly, Phase II Fund's portfolio may not be adequately protected in all market conditions. Furthermore, there is no assurance that any hedging transactions generated by Phase II Fund will correctly assess the exposure and reduce the associated risks. Since the characteristics of many securities change as markets change or time passes, the success of Phase II Fund's hedging strategy, if any, will also be subject to PhaseCapital's ability to analyze, adjust, and execute hedges in an efficient and timely manner. While Phase II Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for Phase II Fund than if it had not engaged in any such hedging transactions.

Risks of Investments in Options. Investing in options can provide greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of

time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (*i.e.*, sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter options that Phase II Fund may use in its investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for options is relatively illiquid, particularly for relatively small transactions.

Forward Trading. Phase II Fund may enter into forward contracts with counterparties. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies and commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by Phase II Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which PhaseCapital would otherwise recommend, to the possible detriment of Phase II Fund. Market illiquidity or disruption could result in major losses to Phase II Fund.

Illiquid Securities; Designated Investments. Although the General Partner does not currently anticipate that Phase II Fund will purchase assets that are illiquid, restricted or difficult to value, in certain circumstances, general economic or market conditions may adversely affect the liquidity of, or ability to value, certain investments held by Phase II Fund. In such event, the General Partner may designate such securities as "Designated Investments", and all Limited Partners at the date of such designation will participate on a pro rata basis in such Designated Investments. Such Designated Investments may have to be held for a substantial period of time before they can be liquidated, if at all. Market prices for such Designated Investments are often volatile and may not be ascertainable. The resale of restricted and illiquid securities often may have higher brokerage charges. Designated Investments may represent capital not available for withdrawal by Limited Partners. Such investments may be difficult to value.

Counterparty Risk. Some of the markets in which Phase II Fund may effect its transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes Phase II Fund 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, thus causing Phase II Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Phase II Fund has concentrated its transactions with a single or small group of counterparties. Phase II Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

Loans of Portfolio Securities. Phase II Fund may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of Phase II Fund’s assets. By doing so, Phase II Fund attempts to increase its income through the receipt of interest on the loan. In the event of a default or the bankruptcy of the other party to a securities loan, Phase II Fund could experience delays in recovering the securities it lent and there is no assurance that the securities will be recovered. To the extent that the value of the securities Phase II Fund lent has increased, Phase II Fund could experience a loss if such securities are not recovered.

American Depositary Receipts and Global Depositary Receipts. American Depositary Receipts (“ADRs”) are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by foreign issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts (“GDRs”) are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a foreign company’s publicly traded securities that are traded on foreign stock exchanges or foreign over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

Money Market Instruments. PhaseCapital may invest, for defensive purposes or otherwise, all or a portion of Phase II Fund’s assets in high quality fixed-income securities, money-market instruments, and foreign money-market mutual funds, or hold cash or cash equivalents in such amounts as PhaseCapital deems appropriate under the circumstances. Money market instruments are high quality, short-term fixed-income obligations, which generally have remaining maturities of one year or less, and may include U.S. Government securities, commercial paper, certificates of deposit and bankers’ acceptances issued by domestic branches of United States banks that are

members of the Federal Deposit Insurance Corporation, and repurchase agreements. However, there can be no assurances that such investments will not be subject to significant risks.

Investments in Fixed-Income Securities. Phase II Fund may invest a portion of its capital in bonds or other fixed income securities, including, without limitation, bonds, notes and debentures issued by corporations, debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, commercial paper, and “higher yielding” (and, therefore, higher risk) debt securities of the former categories. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer’s inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). A major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Purchasing Securities of Initial Public Offerings. From time to time Phase II Fund may purchase securities that are part of initial public offerings. The prices of these securities may be very volatile. The issuers of these securities may be undercapitalized, have a limited operating history, and lack revenues or operating income without any prospects of achieving them in the near future. Some of these issuers may only make available a limited number of shares for trading and therefore it may be difficult for Phase II Fund to trade these securities without unfavorably impacting their prices. In addition, investors may lack extensive knowledge of the issuers of these securities.

Lack of Diversification. Phase II Fund’s portfolio may not be adequately diversified in all market conditions, including with respect to geography, asset class and sector concentration. Any concentration of risk may expose Phase II Fund to losses disproportionate to those incurred by the market in general if the areas in which Phase II Fund’s investments are concentrated are disproportionately adversely affected by price movements. Although generally Strategies seek exposure to broad investment categories and factors rather than to idiosyncratic performance of individual companies, at any given time the portfolio may not exhibit a degree of diversification suitable for all market conditions. Lack of adequate diversification may result from disproportionate exposure to a particular asset class or category, or to idiosyncratic exposures resulting from transitional periods during trading or artifacts of the specific means employed by the various Strategies to achieve exposure to investment categories or factors. Although portfolios will be monitored for undesired concentration, the continued absence of such concentration cannot be guaranteed.

General Economic and Market Conditions. The success of Phase II Fund’s activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of Phase II Fund’s investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect, among other things, the level and volatility of securities’ prices, the

liquidity of Phase II Fund's investments and the availability of certain securities and investments. Volatility or illiquidity could impair Phase II Fund's profitability or result in losses. Phase II Fund may maintain substantial trading positions that can be materially adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

In recent years, global markets have experienced unprecedented volatility and illiquidity and may experience uncertainty and volatility in the future. As a result, there can be no assurance that Phase II Fund will not be materially adversely affected by shocks to the markets in which it invests. Such conditions have in recent years also led to extensive governmental interventions. Such interventions have in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition—as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action—these interventions have typically been unclear in scope and application and have led to ongoing relumaking, resulting in confusion and uncertainty. It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets and/or the effect of such restrictions on PhaseCapital's strategies.

Broker Risks. Phase II Fund's assets may be held in one or more accounts maintained for Phase II Fund by its prime brokers or at other brokers or custodian banks, which may be located in various jurisdictions, including emerging market jurisdictions. The prime brokers, other brokers (including those acting as sub-custodians) and custodian banks are subject to various laws and regulations in the relevant jurisdictions that are designed to protect their customers in the event of their insolvency. Accordingly, the practical effect of the laws protecting customers in the event of insolvency and their application to Phase II Fund's assets may be subject to substantial variations, limitations and uncertainties. For instance, in certain jurisdictions brokers could have title to Phase II Fund's assets or not segregate customer assets. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a prime broker, another broker or a clearing corporation, it is impossible further to generalize about the effect of the insolvency of any of them on Phase II Fund and its assets. The insolvency of any of the prime brokers, local brokers, custodian banks or clearing corporations may result in the loss of all or a substantial portion of Phase II Fund's assets or in a significant delay in Phase II Fund having access to those assets. In addition, Phase II Fund will enter into various prime broker and trading agreements with brokers and other counterparties, the terms of which may include a variety of potentially adverse provisions, which may include default and indemnification.

Item 9. Disciplinary Information

There are no legal or disciplinary events to report that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Item 10. Other Financial Industry Activities and Affiliations

The General Partner, an affiliate of PhaseCapital, serves as general partner to Phase II Fund. PhaseCapital also is affiliated with two other entities that operate within the financial industry:

- Denham Capital Management L.P. (“Denham”) is an investment adviser registered with the SEC and based in Boston. PhaseCapital is under common control with Denham and PhaseCapital utilizes the services of certain administrative personnel of Denham. Denham and PhaseCapital share office space
- Potamus Trading, LLC (“Potamus”) is a registered broker dealer and based in Boston. PhaseCapital is under common control with Potamus. PhaseCapital does not execute any trade orders through Potamus and has no plans to do so in the future.

PhaseCapital, the General Partner and their affiliates, and their respective members, partners, principals, managers, affiliates and employees (collectively, the “Management Affiliates”) may engage in other activities, including providing investment management and advisory services to other accounts, and shall not be required to refrain from any activity, to disgorge profits from any such activity or to devote all or any particular amount of time or effort of any of their officers, directors or employees to Phase II Fund and its affairs. The Management Affiliates are not restricted from forming managed accounts or other investment partnerships or funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with Phase II Fund and/or may involve substantial time and resources of one or more of the Management Affiliates. These activities could be viewed as creating a conflict of interest in that the time and effort of the Management Affiliates will not be devoted exclusively to the business of Phase II Fund, but will be allocated between the business of Phase II Fund and other business activities of the Management Affiliates.

PhaseCapital and any of the Management Affiliates may give advice or take action with respect to any of the other accounts (including those that have investment objectives and/or investment strategies similar to Phase II Fund’s), which may be the same as or differ from the advice given or the timing or nature of any action taken with respect to investments of Phase II Fund. Allocation of investment opportunities among any such accounts or funds will be made on a basis that PhaseCapital determines in good faith to be fair and reasonable taking into account considerations that it deems relevant, such as the investment objectives and investment portfolio of Phase II Fund and such other accounts.

The Management Affiliates may trade in securities for their own accounts, subject to restrictions and reporting requirements as may be required by law or otherwise determined from time to time by the General Partner or PhaseCapital, as the case may be. The investment in Phase II Fund by the General Partner and its affiliates is expected, at least initially, to be a significant portion of Phase II Fund’s assets. Phase II Fund may engage in certain transactions with its affiliates provided the terms thereof are commercially reasonable, as determined by the General Partner.

PCR, an affiliate of PhaseCapital that owns the technology licensed to PhaseCapital has also indirectly licensed such technology to Potamus, which executes, among other things, high frequency trades of securities.

The General Partner has responsibility for valuing Phase II Fund's securities. A conflict may arise with respect to this responsibility given the Incentive Allocation to be earned by the General Partner. Such compensation arrangement may create an incentive for PhaseCapital to make investments that are riskier or more speculative than would be the case if such were not in effect.

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

PhaseCapital has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act. Copies of the Code of Ethics will be provided to any client or prospective client by PhaseCapital, upon request. All officers and employees of PhaseCapital are required to follow the Code of Ethics. The Code of Ethics has been adopted based on the general principle that PhaseCapital aims to conduct its business according to the highest ethical standards. Persons subject to the Code of Ethics are subject to, among other things, various restrictions relating to their acquisition of securities. These restrictions include pre-clearance by PhaseCapital's Chief Compliance Officer (the "CCO") of certain personal securities transactions by officers and employees of PhaseCapital in securities (other than certain excluded securities and transactions). The Code of Ethics also includes policies and procedures designed to prevent our officers and employees and Phase II Fund from trading on material non-public information.

PhaseCapital and its personnel may invest in Phase II Fund, subject to the investor eligibility requirements applicable to the Fund. PhaseCapital and its personnel may also invest in securities or other assets in which Phase II Fund may invest, subject to applicable law and the Code of Ethics (including the pre-clearance requirements therein).

Item 12. Brokerage Practices

PhaseCapital is responsible for selecting broker-dealers to execute trades and negotiating any commissions paid on such transactions with respect to Phase II Fund. PhaseCapital's primary consideration in placing transactions with particular broker-dealers is to obtain best execution. Given Phase II Fund's active trading strategy, other important considerations in placing transactions with particular broker-dealers include speed and certainty of communication and trade execution and commissions that are reasonable in relation to the brokerage and research services provided. PhaseCapital will consider other relevant criteria, which may include, but is not limited to: the size and type of the transaction; the nature and character of the markets for the security to be purchased or sold, including the degree of specialization of the broker in such market or securities; the availability of liquidity in the security, including the liquidity and depth afforded by a market center or market-maker; the reliability of a market center or broker; the broker's overall trading relationship with PhaseCapital; the potential for avoiding market impact; the execution services rendered on a continuing basis; the execution efficiency, settlement capability, and financial condition of the firm.

PhaseCapital may execute portfolio transactions with brokers that provide certain products and services that assist it in fulfilling its investment management responsibilities; provided however, that it is expected that such products and services will likely be limited to market data, co-location and information technology services. Although PhaseCapital does not anticipate that it

will generate a significant amount of “soft dollars”, it is anticipated that any use of commissions or “soft dollars” to pay for research products or services will 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, such as market data, obtained with soft dollars generated by Phase II Fund may be used by PhaseCapital to service accounts other than Phase II Fund. In the event that a product or service obtained with soft dollars provides both research and non-research assistance to PhaseCapital, it will make a reasonable allocation of the cost that may be paid for with soft dollars.

When client brokerage commissions are used to obtain research or other products or services, PhaseCapital receives a benefit because it does not have to produce or pay for the research, products or services. Further, PhaseCapital has an incentive to select or recommend a broker-dealer based on PhaseCapital’s interest in receiving the research or other products or services, rather than on the client’s interest in receiving most favorable execution.

If PhaseCapital manages more than one account, allocation of investment opportunities among such accounts (including Phase II Fund) will be made on a basis that PhaseCapital determines in good faith to be fair and reasonable taking into account considerations that it deems relevant, such as the investment objectives and investment portfolio of each account. When the purchase and sale of securities is considered to be in the best interest of more than one account, the securities to be purchased or sold may be aggregated in order to obtain superior execution and/or lower brokerage expenses. Execution prices for identical securities purchased or sold on behalf of multiple accounts in any one business day may be averaged. In such instances, allocation of prices, as well as expenses incurred in the transaction, shall be made in a manner that PhaseCapital considers to be equally as favorable to all participating accounts.

Item 13. Review of Accounts

The strategies employed in Phase II Fund are monitored on a regular basis by PhaseCapital’s investment personnel on a regular basis to seek to insure consistency with Phase II Fund’s intended strategy. A key component of PhaseCapital’s infrastructure is its proprietary portfolio management and risk platform that enables real-time monitoring and back-test capabilities together with the ability to report on a variety of metrics. These reviews are typically conducted by John Donahue, Chief Compliance Officer and Chief Executive Officer, and Dr. Geoffrey Goodell, Chief Investment Officer.

Statements that set forth estimated monthly and year-to-date performance and capital balances are sent to investors in Phase II Fund monthly. In addition, PhaseCapital provides investors in Phase II Fund with a monthly report that typically includes a review of performance from the prior month and commentary on certain topics. Within 120 days after the end of each fiscal year, audited financial statements will be prepared for Phase II Fund and sent to each of investor.

Item 14. Client Referrals and Other Compensation

No person that is not an investor in Phase II Fund provides PhaseCapital with an economic benefit for providing investment advice or other advisory services to Phase II Fund. PhaseCapital does not, directly or indirectly, currently compensate any person for client referrals. There are no sales charges payable by Phase II Fund in connection with the sale of interests therein. PhaseCapital (or the General Partner) may enter into agreements with one or more third parties providing for payments by PhaseCapital or the General Partner to such third parties of a one-time or ongoing fee based upon the capital contributions of certain investors.

Item 15. Custody

PhaseCapital does not act as custodian for Phase II Fund. However, the General partner, which is an affiliate of PhaseCapital may be deemed to have custody of Phase II Fund's assets because of the authority PhaseCapital has over those assets. To satisfy the SEC's custody rule requirements, Phase II Fund will provide its investors with financial statements audited by an independent PCAOB registered public accounting firm within 120 days of the end of each fiscal year.

Item 16. Investment Discretion

PhaseCapital has discretionary authority to manage the assets of Phase II Fund pursuant to an investment management agreement with such Fund. This agreement includes an explicit grant of discretionary authority to manage such Fund's assets. There are no specific limitations placed on this authority, provided that PhaseCapital will exercise its discretionary authority in accordance with the investment objectives and strategy and applicable limitations, if any, set forth in such Fund's offering documents.

Item 17. Voting Client Securities

PhaseCapital has adopted policies and procedures pursuant to Rule 206(4)-6 under the Advisers Act with respect to voting proxies on behalf of Phase II Fund. PhaseCapital will generally vote proxies on behalf of Phase II Fund, although it may elect to abstain from voting under the circumstances set forth in PhaseCapital's Proxy Voting Policies and Procedures. It will only cast proxy votes in a manner consistent with the best interests of Phase II Fund. Absent special circumstances, which are described in PhaseCapital's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in PhaseCapital's Proxy Voting Policies and Procedures, as they may be amended from time to time. A summary of certain aspects of PhaseCapital's Proxy Voting Policies and Procedures is as follows:

- The CCO or his designee will be responsible for monitoring corporate actions, making voting decisions in the best interest of Phase II Fund and seeking to ensure that proxies are submitted in a timely manner.
- PhaseCapital will generally vote proxies in accordance with PhaseCapital's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented.

- Although the Proxy Voting Guidelines are to be followed as a general policy, certain issues will be considered on a case-by-case basis based on the relevant facts and circumstances as determined by the CCO or his designee.
- In situations where the CCO or his designee determines that there is a conflict of interest in the voting of proxies due to business or personal relationships that PhaseCapital maintains with persons having an interest in the outcome of certain votes, the CCO or his designee will take appropriate steps to seek to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

Any holder of an interest in Phase II Fund may request a copy of our proxy voting policies and procedures, as well as information regarding how PhaseCapital voted proxies on behalf of Phase II Fund, by calling John Donahue at 617-587-5806, or by submitting a written request to his attention c/o PhaseCapital LP, 200 Clarendon Street, 25th Floor, Boston, Massachusetts, 02116

Item 18. Financial Information

PhaseCapital believes that it has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients, and PhaseCapital has not been the subject of any bankruptcy proceeding.