

**Item 1 - Cover Page**

***Brochure***

**Form ADV – Part 2A**

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March 28, 2014

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**ADDITIONAL INFORMATION ABOUT STEVENS CAPITAL MANAGEMENT LP IS ALSO AVAILABLE ON THE SEC’S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).**

**STEVENS CAPITAL MANAGEMENT LP IS REGISTERED WITH THE SEC AS AN INVESTMENT ADVISER; HOWEVER, THIS REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.**

## **Item 2 - Material Changes**

This brochure was prepared for Stevens Capital Management LP's ("SCM") annual updating amendment. SCM's previous brochure was completed on March 22, 2013. In this annual updating amendment, SCM has made the following changes, which it does not consider to be material:

Item 4. Updated SCM's assets under management.

Item 8. Updated the disclosures relating to trade error risk.

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*SCM has included in this Brochure references to products, such as private investment funds, only for the purpose of describing SCM's advisory business. This Brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.*

#### **Item 4 - Advisory Business**

SCM is a Delaware limited partnership that was formed in April 2002 by Matthew S. Tewksbury. Mr. Tewksbury serves as SCM's Chief Executive Officer. SCM is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940 (the "Advisers Act"). SCM is registered as a commodity pool operator since January 2009 and a commodity trading advisor since June 2003 with the U.S. Commodity Futures Trading Commission (the "CFTC") and is a member of the National Futures Association (the "NFA"), a U.S. self-regulatory organization supervised by the CFTC. SCM currently employs approximately 73 professional and administrative staff in its office located at 201 King of Prussia Road, Suite 400, Radnor, Pennsylvania, 19087.

SCM is the investment, portfolio and administrative manager of Tewksbury Investment Fund Ltd. ("TIF" or the "Fund"). SCM is also the investment, portfolio and administrative manager to Hamilton Fund Ltd. ("HFL"), a Bermuda company, that invests all of its capital into TIF. HFL does not hold any portfolio investments other than the shares of TIF (TIF and HFL may be referred to collectively as the "Funds").

TIF is an open-ended Bermuda company that trades and invests in a wide and substantially unrestricted variety of financial markets and instruments. SCM is the principal adviser and trader for TIF and has overall responsibility for all of TIF's trading activities, although SCM delegates investment discretion to a number of internal as well as external traders. SCM's staff includes extensive technical support personnel and a team of financial analysts to support its investment advisory and trading activities. SCM is also responsible for certain aspects of TIF's administrative operations, which broadly include: (i) administrative, legal and regulatory compliance; (ii) development and implementation of accounting systems, procedures and policies; and (iii) management of all TIF shareholder communications. Other than serving as the investment, portfolio and administrative manager of TIF and HFL, SCM currently does not offer any other financial or advisory services.

The general partner of SCM is Adams Holdings LLC ("Adams"), a company owned by Matthew Tewksbury and his family. SCM's limited partners are Mr. Tewksbury and Adams. Mr. Tewksbury serves as SCM's CEO and the Managing Member of Adams. SCM has full discretion in investment decisions made on behalf of TIF. Investment advice is provided directly to TIF according to its particular investment objectives and not individually to the Funds' investors. As of December 31, 2013, SCM manages, on a discretionary basis, U.S. \$2,581,557,438 in client assets. SCM does not manage any client assets on a non-discretionary basis.

#### **Item 5 - Fees and Compensation**

SCM receives a monthly management fee (the "Management Fee") equal to one-third of one percent (4% annually) of the net asset value ("NAV") of each shareholder's shares in TIF as of the beginning of each month, deducted monthly in arrears at the end of each month from the Fund. For purposes of calculating the Management Fee, NAV is not reduced by any Incentive Fee (see Item 6) or by the Management Fee. SCM's Management Fee is not negotiable.

The Fund allocates significant assets to external investment and trading advisors. SCM has committed, through its Outside Traders Investment Program (“OTIP”), a department within SCM that selects outside investment managers, a substantial portion of the Fund’s assets to “outside” investment managers unaffiliated with TIF or SCM. The fees of the OTIP managers vary widely, including management fees currently ranging between 0%-4% per annum and incentive fees currently ranging between 10%-30%, calculated monthly, quarterly and/or annually. SCM analyzes a prospective OTIP manager’s fee structure relative to SCM’s risk and reward analysis of such trader, prior to making any investment. Capital allocated to OTIP will be subject to a “layering” of fees, as OTIP advisers or managers themselves charge incentive or performance-based fees and management fees in addition to the Incentive Fees and Management Fees paid by TIF to SCM (see Item 6). The advisory fees paid in respect of TIF’s investments in OTIP are not credited against the Incentive Fees and Management Fees paid by TIF. Additionally, certain OTIP funds may impose redemption charges which will be borne by TIF.

SCM is authorized to allocate whatever portion of TIF’s assets to OTIP that SCM deems appropriate. OTIP investments are directed by portfolio managers independent of SCM. SCM is not limited in the types of managers it may choose in OTIP, and SCM may change managers, reallocate assets and invest on such terms as SCM deems appropriate. Shareholders of TIF are not notified of any such changes. Fees paid to independent OTIP managers represent a significant transaction cost.

The Fund incurs substantial transaction costs in addition to Management Fees and Incentive Fees. Certain of the strategies employed by TIF require frequent trading, increasing portfolio turnover, brokerage commissions and other transaction fees and expenses. As a result, the expenses of TIF may represent a higher percentage of net assets than may be the case with many other private investment funds. These transaction costs have a number of components, including (without limitation): brokerage commissions, floor brokerage commissions, bid/ask spreads, exchange fees, sales fees and regulatory fees.

TIF borrows to leverage its proprietary trading, and many of the OTIP traders with which TIF invests leverage their portfolios as well. TIF bears, directly or indirectly, the costs of such borrowings.

SCM does not “pass through” any of its own costs to TIF. All ordinary administrative and operational costs incurred by SCM are paid by SCM. See Item 12, *Brokerage Practices*, for additional information regarding brokerage.

Certain of TIF’s investments—for example, its investment in Rand Financial Services, Inc. (“Rand Financial”), a U.S. futures commission merchant—have substantial operating costs.

HFL does not pay any fees or expenses directly. All of HFL’s ordinary fees and expenses are incurred indirectly as a TIF shareholder. HFL pays no fees to SCM.

SCM is paid performance fees as of the end of each month in the amount of 22% of any New Appreciation (described below) then attributable to each tranche (described below) of shares in TIF (the “Incentive Fees”). New Appreciation is calculated separately with respect to each tranche. Incentive Fees are not negotiable. The receipt by SCM of the Incentive Fees may

incentivize SCM to trade and invest TIF's portfolio in a more speculative manner than SCM otherwise would in the absence of such compensation.

New Appreciation is the monthly increase, if any, in the cumulative "Appreciation" attributable to each tranche over the previous month-end highest amount of cumulative "Appreciation" attributable to such tranche as of any month-end (the "High Water Mark" with respect to such tranche). "Appreciation" includes all realized and unrealized profit earned by TIF from all sources, including dividends and short interest rebates, as well as income and net asset value growth in OTIP and other investments. However, interest income earned on TIF's assets invested directly (as opposed to indirectly through OTIP) in short-term, low risk, interest-bearing accounts and U.S. Treasury Bills is not included in calculating "Appreciation."

The Management Fee and Incentive Fee do not reduce cumulative "Appreciation" or "New Appreciation."

The fact that SCM is eligible to receive the Incentive Fee relating to the performance of TIF may create an incentive for SCM to make investments on behalf of TIF that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the Incentive Fees received by SCM are calculated on the basis of the unrealized, as well as the realized, gains and losses of TIF. As a result, the Incentive Fees could be payable to SCM in respect of unrealized gains of TIF that may never be realized.

The Incentive Fee is calculated more frequently than is the case with most private investment funds. Typically, incentive compensation is calculated annually or quarterly, not monthly. The monthly calculation of the Incentive Fee means that an investor could be subject to significant Incentive Fees over a relatively short period of time (greater than one month) even though the aggregate NAV of such shareholder's shares had declined during such period. In addition, as Management Fees are not deducted in determining whether Incentive Fees are due, a tranche of shares could have a loss in a given month, but still be subject to an Incentive Fee.

In the event that a shareholder invests in more than one tranche of shares, one of such shareholder's tranches could be subject to an Incentive Fee even though such shareholder's overall investment in the Fund has declined in value.

## **Item 6 - Performance Based Fees and Side-By-Side Management**

### **Performance Based Fees**

As disclosed in Item 5 of this Brochure, SCM accepts a performance-based fee from TIF. This performance-based fee is calculated based on a share of appreciation attributable to TIF's assets. Since SCM receives performance-based compensation, there is an incentive for it to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, the performance on which the performance-based compensation is calculated will include unrealized appreciation and depreciation of investments, which may not ultimately be realized.

## **Side-By-Side Management**

SCM advises two clients, TIF and HFL. HFL invests all of its assets in TIF. Thus, there is no side-by-side management of funds with, and no conflict created by, disparate performance fee arrangements.

### **Item 7 - Types of Clients**

SCM provides investment advice to two clients, TIF and HFL, both of which are private investment vehicles. TIF and HFL shareholders may include, but are not limited to, high net worth individuals, employees or individuals affiliated with SCM, trusts, partnerships, corporations and other business entities. The minimum initial subscription is U.S. \$5,000,000.00, which may be waived in the discretion of the Fund's Board of Directors. The minimum subscription amount that may be purchased by employees or associates of SCM is U.S. \$5,000. SCM does not currently anticipate providing services to any other type of clients in the future.

### **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

#### ***Introduction***

Currently, SCM's three primary strategies in advising TIF are as follows: (1) proprietary trading programs; (2) OTIP; and (3) interest income, which includes income from currency hedging transactions. In addition, SCM oversees TIF's ownership of Rand Financial, a futures commission merchant that has historically contributed to TIF's profitability in part by reducing its U.S. futures trading execution costs. These sources of income and associated methods of analysis, investment strategies and risk of loss are described in more detail below.

SCM trades and invests in a virtually unlimited variety of investment instruments in markets throughout the world on behalf of TIF. SCM has the flexibility, on behalf of TIF, to utilize leverage to make investments in instruments both on exchanges and in privately negotiated transactions and may hold long and short positions in such instruments.

#### ***Methods of Analysis and Investment Strategies***

##### **Use of Proprietary Trading Programs:**

SCM generally employs proprietary computerized statistical methods using an extensive database of market-related data – including prices, volume, volatility, open interest and other market statistics in the development and monitoring of trading strategies. SCM develops computer programs to search for patterns in data and develops trading strategies in an attempt to exploit those patterns. SCM's trading decisions are based on a combination of these computer systems and the market judgment and experience of its management, analysts and traders. SCM's methodology is predominantly systematic. Trading decisions require the exercise of judgment by SCM in the evaluation of trading methods used, in their possible modification from time to time and in their implementation.

**OTIP:**

In addition to the use of proprietary computer trading programs, SCM's general investment objective is to attempt to provide investors with asset appreciation through investing with OTIP managers who have demonstrated an ability to achieve capital appreciation while attempting to maintain a controlled level of risk. OTIP investments are directed by portfolio managers independent of SCM, incorporating a "fund of funds" component into TIF's overall portfolio. OTIP investments involve the allocation of capital to unaffiliated managers through investments in managed accounts or interests in limited liability entities. OTIP investments are separate and distinct from SCM's proprietary trading. SCM has no direct control over OTIP managers.

A cornerstone of SCM's investment approach is evaluating the capabilities of OTIP managers and the investment strategies they implement. SCM then uses that information in conjunction with other factors including, but not limited to, anticipated risks, rewards and correlation among investment strategies, to construct a diversified portfolio of OTIP investments that SCM believes have the potential to provide TIF with attractive, risk-adjusted returns.

In selecting an OTIP manager, SCM considers a number of factors including, but not limited to, the following: amount, level and type of trading experience of the manager; trading methodology of the manager; effective risk management; compliance culture of the manager; and historical trading results of the manager. SCM may allocate capital to managers that lack historical track records but in SCM's judgment, offer exceptional potential.

A significant portion of the Fund's capital is available to be allocated to OTIP. TIF is substantially unrestricted in the amount of capital that may be invested in OTIP.

**Interest Income:**

Interest income is earned on the assets deposited as trading margin or held in reserve in short-term interest bearing accounts and U.S. Treasury Bills. Gains or losses resulting from currency hedging transactions are also reflected in interest income.

**Rand Financial / Commercial Ventures:**

TIF owns Rand Financial, a futures commission merchant and member of the major global futures exchanges. TIF clears a substantial portion of its direct trades on certain futures exchanges through Rand Financial. Rand Financial is an Illinois corporation with its principal place of business at 141 W. Jackson Boulevard, Suite 1950, Chicago, Illinois 60604.

SCM, on behalf of TIF, allocates whatever portion of TIF's assets to commercial ventures, such as Rand Financial, as SCM deems appropriate. Historically, this has been a small allocation of TIF's assets. Commercial ventures offer little, if any, liquidity.

**Risk of Loss**

**Shares of TIF and HFL are highly speculative and illiquid securities and include a substantial risk of loss; they are available only to prospective investors who have such knowledge and experience in finance and business matters that such prospective investors**



are capable of assuming the risks of such an investment. Investors must be prepared to bear the loss of all or substantially all of their investment in TIF or HFL.

The risk factors listed below represent a summary of some of the various risks presented by an investment in TIF and are not and do not purport to be a complete list of all potential risks involved in an investment in TIF or HFL. *Any person or entity considering making an investment in TIF should carefully review the “Risk Factors” and “Conflict of Interest” sections of TIF’s Confidential Offering Memorandum or HFL’s Confidential Private Placement Memorandum.* The risk factors associated with investments in TIF are equally associated with investments in HFL, as HFL invests all of its assets in TIF.

In addition to risks associated with TIF’s complex and leveraged proprietary computer trading strategies and the other risks described below, the risks associated with an investment in TIF include, but are not limited to: (1) market risk; (2) valuation risks; (3) liquidity and position duration risk; (4) the risks of relying for both trading signals and trade executions upon computer programs and systems which could have unrecognized internal errors, be sabotaged and/or malfunction; (5) the risk of investing in operating businesses, such as Rand Financial, which can be subject to types of liabilities not generally incurred by passive investment vehicles as well as to material taxes on their operation; (6) portfolio concentration risk; (7) investor concentration risk; (8) operational risks in addition to those related to SCM’s reliance on computer programs and systems; (9) legal and regulatory risk; (10) documentation risk; (11) systemic risk; (12) credit risk; and (13) settlement risk.

### **Risks for Quantitative Analysis**

SCM’s quantitative analysis methods rely on the assumption that the market-related data it receives along with any other publicly-available sources of information about the securities that SCM purchases and sells is accurate, uncorrupted and unbiased. While SCM is alert to indications that data may be incorrect, there is always a risk that SCM’s statistical strategies may be compromised by inaccurate or misleading data. While SCM continuously reviews and refines, if necessary, its investment strategies, there are market conditions where the quantitative strategies that are key to SCM’s investment approach perform poorly. Despite the proprietary nature of SCM’s quantitative models, their effectiveness can dissipate over time as a result of the independent discovery of similar strategies by academics and practitioners and as the market becomes more efficiently priced.

### **No Formal Diversification Policies**

Although diversification is an integral part of SCM’s overall portfolio risk management process, SCM is not restricted as to the percentage of TIF’s assets that may be invested in any particular issuer, industry, instrument, market or strategy. In attempting to maximize TIF’s returns, SCM may concentrate the holdings of TIF in those industries, companies, instruments or markets that, in its sole judgment, provide the best profit opportunities consistent with TIF’s overall investment objective. Consequently, a loss in any such concentrated position could ultimately result in significant losses to TIF and a proportionately higher reduction in NAV than if its capital had been spread over a wide number of positions.

## **Model Risk**

Certain of SCM's strategies require the use of quantitative forecasting and valuation models that it has developed over time, as well as forecasting and valuation models developed by third parties and made available to SCM. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without SCM recognizing that fact before substantial losses are incurred. There can be no assurance that SCM will be successful in continuing to develop and maintain effective quantitative models, and the necessity of continuously updating these models demonstrates that SCM's past successful results may not be representative of TIF's future performance.

## **Failure of Algorithms**

SCM utilizes sophisticated computerized models to automatically determine and execute trade entry and exit conditions and manage risk. Substantial test management and software release management efforts are made to ensure that these algorithms operate correctly. However, it is possible that a defect in algorithm design or implementation or risk management could unexpectedly manifest itself and cause sustained long term or instantaneous catastrophic losses for TIF. Moreover, in the case of certain models it may take a significant period of time – and substantial losses – before it can be determined that the model is malfunctioning.

Certain of the models used by SCM are maintained by Waterfront International Limited ("Waterfront"), a company based in Toronto, Canada. In addition, certain employees of Waterfront make trading decisions outside of the models, subject to SCM's overall supervisory authority. SCM and Waterfront have a contractual relationship pursuant to which Waterfront provides portfolio strategy development, investment analysis services, software development consulting services (including, without limitation, the design, coding and implementation of custom computer software applications specified by SCM) and various other ancillary services. SCM and Waterfront have also entered into an agreement pursuant to which SCM has licensed to Waterfront the use of certain intellectual property owned by SCM to allow Waterfront to perform services for SCM. SCM owns all improvements that Waterfront may make to any of SCM's intellectual property. While the Portfolio Manager has worked extensively with Waterfront to develop these models, periodically reviews the performance of these models and implements these models itself, no assurance can be given that a failure by Waterfront to properly maintain these models will not have a material adverse effect on TIF.

## **Failure of Technology**

SCM utilizes sophisticated direct market access hardware, communications network and software technology in order to efficiently execute trades with minimal latency. Substantial efforts are made to ensure such technology operates correctly, however it is possible that a breakdown of such technology could occur and cause sustained long term or instantaneous catastrophic losses for TIF.

## **Systems and Computer Risk**

A significant portion of SCM's strategies is highly systematic and computerized. In many cases, there is little if any human input into either the generation of SCM's trading signals or the execution of its trades. Consequently, TIF is subject to the risk of unknown errors embedded in SCM's computer systems and programs as well as to the risk of malfunctions. These errors and malfunctions are treated by SCM as "trade errors" and are charged to TIF (which also receives any windfall profits from such "trade errors"), subject to SCM's general standard of liability and indemnification. The consequences of any such errors could be materially adverse, particularly as, given the high volume in which SCM trades, detection of a "clearly erroneous" trade entered by one of SCM's computers may be significantly delayed or even go undetected.

## **Trade Execution Risk**

Many of the trading techniques used by TIF require the rapid and efficient execution of transactions. Inefficient executions can eliminate the small pricing differentials that many of SCM's strategies seek to exploit. SCM attempts to address trade execution risk through the use of proprietary computer systems and programs, but these, in turn, are subject to the error and malfunction risks described above (and are treated by SCM as "trade errors"). As previously noted, SCM treats all trade errors (resulting in both losses and gains) for the account of TIF, subject to SCM's general standard of liability and indemnification.

## **Trade Error Risk**

Trade errors will occur in the course of SCM's implementation of its strategies for TIF. Such errors will be charged to the account of TIF (just as any other trading cost), unless they are the result of conduct inconsistent with SCM's standard of care. SCM defines "trade errors" as errors in executing the trading signals generated by its strategies – including, but not limited to, the following examples: buying rather than selling a particular investment asset (and *vice versa*); buying or selling the wrong investment asset or the wrong amount of an investment asset; or, buying or selling an investment asset at the wrong price. For such purposes, "trade errors" include errors resulting from faults embedded in, as well as malfunctions by, SCM's computer systems and programs (including both software and hardware). Such "trade errors" are to be distinguished from errors in judgment, due diligence or other factors leading to a trading signal being generated, as well as from unauthorized trading or other improper conduct by SCM personnel. SCM regards "trade errors" – assuming that SCM has exercised due care in implementing procedures designed to prevent "trade errors" – as an inherent feature of implementing high volume, specialized, complex and highly systematic strategies. In the absence of statutory, regulatory or self-regulatory requirements or formal guidance to the contrary, SCM will (unless SCM otherwise determines) charge all trade errors (both those which result in losses and those which result in gains) to the account of TIF.

If SCM determines that a transaction does not constitute a trade error, the profit or loss on the transaction will be allocated to TIF without further inquiry, so that SCM will have an incentive to reach such determination.

If SCM determines that a transaction resulted in a trade error, SCM must make the further determination of whether SCM met its standard of care with respect to such trade error. The standard of care applicable to SCM applies to SCM itself, not to the individual SCM personnel involved in any given trade error. Consequently, SCM itself would be deemed to have violated its standard of care only if SCM did not have adequate control and supervisory procedures in place with respect to trade errors. While it is unlikely that SCM would determine that SCM's conduct with respect to any given trade error failed to meet SCM's standard of care, SCM nevertheless will have a conflict of interest in reaching such determination.

The trade errors which occur in implementing quantitative strategies can be very substantial as a result of a computer or other technical malfunction.

The OTIP managers will also be subject to the risk of trade errors. Due to its allocation of substantial amounts of capital to OTIP, TIF is subject to two "layers" of trade error risk – at both SCM's level and the OTIP level. SCM will have no ability to control, and likely will not even know of, trade errors at the OTIP level.

### **Relative Value Strategies**

The success of TIF's relative value trading is dependent on SCM's ability to exploit relative mispricings among interrelated instruments. Although relative value positions may be considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which TIF maintains its positions. Even pure "riskless" arbitrage—which is rare—can result in significant losses if the arbitrage cannot be sustained (due, for example, to margin calls). TIF's relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force TIF to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies.

In recent market conditions, the profitability of relative value trading has been materially reduced — in part due to the number of market participants seeking to exploit the same mispricings and the restricted availability of credit.

### **Event-Driven Investing**

TIF invests in positions whose profitability depends on the result of some significant corporate event, for example, a merger, tender offer, exchange offer or liquidation. Corporate events are affected by numerous factors—including not only market movements but also regulatory intervention, shareholders' consent and changes in interest rates and economic outlook—that can have a particularly adverse effect on even the most apparently safe risk arbitrage investments. The risk of non-consummation in such transactions is high, and unexpected outcomes can lead to substantial losses.

## **Directional Trading**

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

## **Hybrid and Other Strategies**

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

SCM's approach combines a range of different trading techniques, both implementing different strategies in different markets and combining different strategies, in the same or related markets.

SCM is continually developing new strategies, adapting and refining existing strategies, and retiring old strategies. There is no material limitation on the strategies that SCM may apply and no assurance as to which types of strategies may be applied at any one time.

## **Energy Trading**

Energy trading (*i.e.*, trading in natural gas, oil, electricity and related derivative instruments, including options and futures) involves certain financial risks that are qualitatively different from those incurred in trading securities and other financial instruments.

The energy markets are susceptible to significant short-term price volatility as a result of a variety of factors, which may include the following: the functioning of facilities necessary to produce, transport, store and deliver physical energy; the inability to store electricity; the condition of efficient operation of power distribution networks; rate and tariff regulation; government ownership or operation of certain trading counterparties; consumer advocacy; weather-related events; governmental intervention; changes in law; international political events; acts of war; terrorist attacks; *force majeure* or other unforeseen events; high trading volumes; unexpected changes in congestion; dislocation in nodal pricing resulting from unexpected market conditions such as outages, and spikes in fuel prices; or other factors such as market illiquidity or disruption, the inability or refusal of a counterparty to perform or the insolvency or bankruptcy of a significant market participant. Furthermore, certain energy markets — in particular, those related to oil — are particularly subject to the risk of sudden and dramatic price changes as a result of international political events, acts of war and terrorism and the anticipation of such events. These events are, by their nature, unpredictable, and can cause extreme and sudden price reversals and market disruptions.

In its energy trading, TIF competes with “asset-based” traders (such as electric utilities) that have the competitive advantage of being able to produce all or part of the energy they trade, thus reducing their exposure to fluctuating market prices. Unless it invests in energy-producing

assets, TIF will not be able to produce energy and may be required to acquire energy at market prices, and at substantial losses, in order to discharge its contractual obligations.

### **Financing Arrangements; Availability of Credit**

The use of leverage is integral to many of TIF's strategies, and TIF depends on the availability of credit in order to finance its portfolio. There can be no assurance that TIF will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing to TIF can apply discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel TIF to liquidate all or part of its portfolio at disadvantageous prices.

### **Leverage**

TIF invests on a highly leveraged basis, both through its borrowings and through the significant degree of leverage typically embedded in the derivative instruments in its portfolio. Losses incurred on TIF's leveraged investments increase in direct proportion to the degree of leverage employed. TIF also incurs interest expense on the borrowings used to leverage its positions.

To the extent the assets of TIF have been leveraged through the borrowing of money, the purchase of securities on margin or otherwise, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by TIF's portfolio fail to cover such costs, the NAV of TIF may decrease faster than if there had been no borrowings.

### **Lack of Liquidity**

Despite the generally heavy volume of trading in most of the instruments traded by TIF, the market for certain of these instruments may have limited liquidity. Lack of liquidity can make it economically infeasible for TIF to close out open positions. In addition, illiquidity can disrupt the historical price relationships on which SCM's relative value and directional strategies are based, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value.

### **Derivatives**

TIF uses derivative financial instruments, which may include, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and may use derivatives for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations

between the actual or realizable and the theoretical value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to TIF to close out positions in order either to realize gains or to limit losses.

TIF's investments in OTC derivatives are subject to greater risk of counterparty default and less liquidity than exchange-traded derivatives, although exchange-traded derivatives are subject to risk of failure of the exchange on which they are traded and the clearinghouse through which they are guaranteed. Disruptions and uncertainty can cause substantial losses on OTC transactions if such transactions are prematurely terminated, or payment on such transactions is delayed or completely lost. While the Wall Street Reform and Consumer Protection Act (the "Reform Act") is intended in part to reduce market uncertainty and risk of loss under these circumstances, its success in this respect depends on the implementation of numerous regulations over the next several years, and may not be evident for some time. The Reform Act includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Many types of swaps that once were executed on a bilateral basis in the OTC markets are now required to be executed through a regulated securities, futures or swap exchange or execution facility – which may materially increase the expense and decrease the liquidity and availability of such transactions.

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

TIF's use of derivatives and other instruments (such as equities) for hedging purposes involves certain additional risks, including (i) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (ii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of TIF's assets segregated to secure its obligations under derivatives contracts. By hedging a particular position, TIF limits the potential gain from an increase in value of such position, but may not achieve a commensurate increase in risk control.

## **Short Sales**

As an integral part of its trading strategies, TIF routinely sells securities "short." A short sale is effected by selling a security which TIF does not own, or selling a security which TIF owns but which it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, TIF must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. TIF must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless TIF then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no

limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by TIF. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by TIF. Furthermore, TIF may prematurely be forced to close out a short position if a counterparty from which TIF borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

During market disruptions over the last several years, securities regulators in a number of countries imposed bans on the short-selling of financial sector (and in some cases, broader market) equities. These limitations were typically imposed on an “emergency” basis, making it impossible for numerous market participants to continue to implement their strategies. Certain of these bans are still in effect and some could be made permanent. Any ongoing regulatory limitations on short-selling which may result from market disruptions could materially adversely affect SCM’s ability to implement its strategies for the benefit of TIF.

### **Non-U.S. Securities and Emerging Markets**

TIF trades and invests in securities of companies domiciled or operating in one or more non-U.S. countries and may make other investments in entities located outside the U.S., including in countries that are considered to be “emerging markets.” Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some non-U.S. governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of non-U.S. tax laws (*e.g.*, the imposition of withholding taxes on dividend or interest payments, capital gains taxes, income taxes and excise taxes) or confiscatory taxation may also affect TIF’s investment in non-U.S. securities and its other investments in entities located outside the U.S. TIF may incur higher expenses from investment in non-U.S. securities and, in particular, in emerging markets, than from investment in U.S. securities and in non-emerging markets because of the costs that must be incurred in connection with conversions between various currencies and because non-U.S. brokerage commissions may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and subject to less stringent governmental supervision than in the United States. TIF’s investments in non-U.S. countries could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations and in hedging market risk.

### **Private Investments; Illiquid Investments; Estimated Values**

From time to time, TIF invests in illiquid and restricted, as well as thinly-traded, instruments (including privately placed securities). There is often no trading market for these investments, and TIF might only be able to liquidate these positions, if at all, at disadvantageous prices. TIF may be required to hold such investments despite adverse price movements. If TIF makes a short sale of an illiquid holding, it may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position.



SCM values the illiquid investments in TIF's portfolio at fair value in its good faith discretion. Although there can be no assurance that these valuations will accurately predict the price at which an arm's-length buyer would be willing to purchase the investments, these valuations are part of the calculation of TIF's NAV.

In order to ascertain the NAV of TIF, SCM will need to use an estimated "fair value" (determined by SCM) for its illiquid investments. Any such "fair value" may differ materially from the value ultimately realized upon the liquidation of these investments. Nevertheless, Management Fees and Incentive Fees will be paid, the participation of new Subscriptions in the profits and losses of TIF determined, and redemption proceeds calculated, based on TIF's "fair value" determinations.

## **OTIP**

TIF invests a substantial portion of its capital in OTIP. All of these investments involve TIF relying on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting SCM's control over, and knowledge of, TIF's overall portfolio. SCM may not be able to withdraw capital from an OTIP investment even in situations where such OTIP investment is deviating from announced strategies or risk control policies or has otherwise been materially adversely affected. Furthermore, an OTIP investment may deviate significantly from its announced strategies and/or risk control policies without SCM's knowledge.

In selecting OTIP investments with which to place and/or invest capital, SCM relies on a variety of both quantitative as well as qualitative factors, as well as the subjective judgment of its personnel. There can be no assurance as to what factors will be considered in selecting OTIP investments, and poor selection could result in material losses for TIF.

There can be no assurances that OTIP will be successful in the future or avoid substantial losses. Furthermore, OTIP involves risks which are materially different from those involved in TIF's proprietary trading: for example, the risks of investing in unaffiliated entities over which neither SCM nor TIF has any control, and of investing in entities which are significantly less liquid than TIF. In addition, some OTIP investments are made in the form of managed accounts, which potentially expose TIF to unlimited losses with respect to such accounts. OTIP also creates potential tax risks relating to the possibility of TIF becoming subject to tax on certain types of income in certain jurisdictions. Investors should specifically consider the nature and scope of the risks associated with OTIP before making an investment in TIF.

## **Ownership of Rand Financial**

The operation of a clearing firm entails risks that differ materially from those associated with TIF's direct proprietary trading. Capital invested in Rand Financial by TIF and margin funds held on deposit with Rand Financial by TIF in non-segregated accounts are subject to risk of loss to the extent of any Rand Financial operating losses, including any unrecoverable losses in customer accounts. Rand Financial may also be liable for errors in execution to the extent Rand Financial executes as well as clears customer trades.

Rand Financial, as a clearing member of different U.S. and foreign futures exchanges, is subject to potentially material financial obligations as a result of the default of third parties (including its customers and/or other clearing members) trading on such exchanges.

#### **Item 9 - Disciplinary Information**

SCM and its employees are not currently and have not been the subject of any disciplinary actions. This includes any civil, criminal or administrative proceedings.

#### **Item 10 - Other Financial Industry Activities and Affiliations**

As noted in Item 4, SCM has been registered with the U.S. Commodity Futures Trading Commission as a “commodity trading advisor” since June 2003 and as a “commodity pool operator” since January 2009.

SCM provides investment advice to two clients, TIF and HFL. Other than serving as the portfolio and administrative manager of TIF and HFL, SCM currently does not offer any other financial or advisory services.

TIF owns Rand Financial, a futures commission merchant. Rand Financial is a clearing member and a member of the following clearing corporations: CME Group Inc.; ICE Futures Europe; ICE Futures U.S., Inc.; the Kansas City Board of Trade; NYSE LIFFE; the Minneapolis Grain Exchange; ICE Futures Canada; and Euronext LIFFE.

TIF’s ownership of Rand Financial may create an incentive for SCM to prefer Rand over other third party futures commission merchants, even where such third party’s commissions and fees are lower than Rand’s. In addition, SCM would have an incentive to ensure that Rand is profitable, since Rand’s profitability benefits TIF.

#### **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SCM maintains a Code of Ethics and Personal Trading Policy (the “Code”). The Code is available to any shareholder or prospective shareholder of the Funds, upon request and at no cost.

SCM’s reputation for conducting its business in the highest ethical and professional manner is essential to its success. SCM’s supervised persons are responsible for continuing to uphold these high ethical and professional standards. The Code establishes the standard of business conduct that all supervised persons must follow. This includes, but is not limited to, a duty of loyalty to SCM’s clients, which requires that supervised persons act in the best interests of the Funds and always place the Funds’ interests first and foremost. Supervised persons must avoid actions or activities that allow (or appear to allow) them or their family members to profit or benefit from their relationships with SCM and the Funds, or that bring into question their independence or judgment. Supervised persons must always observe standards of business conduct and act in accordance with all applicable federal securities laws and regulations and other applicable laws and regulations. Supervised persons must report any violations of the Code promptly to SCM’s Chief Compliance Officer (“CCO”).

The Code also addresses personal trading by SCM's access persons. The Code requires access persons to report their personal securities holdings and transactions. Access persons are required to submit annual reports of brokerage accounts and holdings. In addition, access persons are required to submit quarterly transaction reports that detail their respective securities transactions.

Subject to the Code, as described above, SCM's supervised persons are permitted to engage in personal securities transactions (including transactions in securities currently held in TIF's account or that may be appropriate for investment in such account). In addition, SCM and its partners, principals, employees, and other affiliates may engage in investment activities for their own accounts or for family members. These activities may involve the purchase and sale of securities that are similar to or the same as, and effected at the same or different times as, but in different concentrations or prices than, those purchased or sold for TIF.

All supervised persons must conduct themselves in accordance with the Code and seek to avoid even the appearance of improper behavior. Each new supervised person is required to read the Code and acknowledge his or her understanding of the Code. In addition, all supervised persons must sign the acknowledgement on an annual basis.

If an access person recommends, buys or sells positions for TIF or has access to trading information and also trades securities for a personal account, there may be a conflict of interest if the access person's personal trading influences their decisions regarding TIF's trades or if the access person misuses trading information to effect personal trades. The Code contains policies and procedures intended to ensure that personal securities trading by access persons is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an access person's position of trust and responsibility. An access person's duty of loyalty to the Funds prohibits misappropriating trading information and/or strategies developed for use in managing TIF's capital in the access person's personal trading. The Code is designed to ensure that TIF is not disadvantaged in any respect by the transactions executed by any access person and access persons in no respect misappropriate any benefit properly belonging to TIF.

The terms "supervised persons" and "access persons" are defined in SCM's Code and in Rule 204A-1 of the Advisers Act.

### **Item 12 - Brokerage Practices**

In negotiating commission rates and selecting brokers to execute securities trades on TIF's behalf, SCM seeks best execution and takes into account numerous factors, including, but not limited to, the financial stability and reputation of the broker and the quality of the special execution capabilities, clearance, settlement, net pricing, latency, online pricing, block trading and block positioning capabilities, on-line access to computerized data regarding clients' accounts, performance measurement data, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short sales, custody, record keeping and other services provided by such broker.

It is SCM's policy not to enter into "soft dollar" arrangements (*i.e.*, arrangements under which SCM agrees to pay more than the lowest available commission for products or services provided by a broker-dealer). SCM retains the option to utilize soft dollar arrangements in the future. If

SCM chooses to change its practice regarding soft dollars, it is permitted to select brokers in recognition of the value of various services or products, beyond transaction execution, that they provide to SCM and TIF. If SCM elects to use soft dollars, it shall follow its internal policies and procedures, which are consistent with Section 28(e) of the Securities Exchange Act of 1934 and any applicable regulatory guidance.

SCM, however, uses full-service broker-dealers that may provide, from time to time (without being requested to do so), research or other products or services to most or all of their customers. SCM may take advantage of the research or other products or services provided rather than producing or paying for them from another provider. In these situations, SCM receives a benefit because it does not have to pay for the research or other products or services. Even in the absence of soft dollar arrangements, SCM may have an incentive to utilize broker-dealers based on benefits that it receives from the broker-dealers, rather than the interests of TIF in receiving the most favorable execution. However, since the research or other products or services provided are not material in nature and quantity and may be provided, from time to time, by several broker-dealers, SCM's receipt of such research or other products or services does not have a material effect on its selection of broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures. Any research or other products or services received are used for the benefit of TIF.

SCM's OTIP program allocates TIF's assets to outside managers. These outside managers may utilize soft dollars. SCM does not receive a benefit and does not exercise control over the outside managers' utilization of soft dollar arrangements, if any.

SCM's OTIP program has occasionally utilized capital introduction services provided by broker-dealers with whom SCM may effect transactions. Capital introduction services are solely for the purpose of introducing OTIP to potential outside managers and they are not material or considered by SCM when determining whether to utilize a particular broker-dealer. Commissions paid by TIF are not increased as a result of any capital introduction services provided by broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures. Any capital introduction services are used for the benefit of TIF.

Broker-dealers utilized by SCM may, from time to time, provide and maintain telecommunication connections between SCM and the broker-dealers and/or various exchanges. The costs of these services are not material and are provided by the broker-dealers to ensure the maintenance of the telecommunication connections and the measurement of the latency associated with trading conducted by SCM are more efficient. The provision of these services does not result in the increase of any commissions paid by TIF. SCM's receipt of such services does not have a material effect on its selection of broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures. Any telecommunication services are used for the benefit of TIF.

Futures brokerage commissions are not subject to the same requirement of best price and execution as are securities brokerage commissions. A significant portion of futures trades for TIF are executed through Rand Financial. Executing trades through Rand Financial provides TIF

with benefits such as confidentiality and visibility into the creditworthiness of its counterparty. While in general the brokerage fees and commissions charged by Rand Financial to TIF are competitive with other third party futures commission merchants, it is possible that TIF may pay higher fees and commissions to Rand than it would to other third party futures commission merchants. As the owner of Rand Financial, TIF benefits from Rand Financial's profitability.

Trade errors may be caused by a third party, such as an executing broker or clearing broker. Upon a loss to TIF resulting from a trade error caused by a third party, SCM will attempt to have such third party reimburse TIF.

SCM has only one client, TIF, for which SCM engages in the purchase and sale of securities and therefore does not aggregate the purchase and sale of securities. HFL, SCM's only other client, invests all of its assets in TIF and, accordingly, SCM does not engage in the purchase and sale of any other securities for HFL.

### **Item 13 - Review of Accounts**

Matthew S. Tewksbury, SCM's CEO, and additional SCM personnel (including, but not limited to, SCM's Director of Fund Accounting, Director of Implementation and CFO), continuously review the trading activity conducted by SCM on behalf of TIF. These continuous reviews consist of an ongoing analysis of (i) various trading data, (ii) internally generated risk reports and (iii) an evaluation of such other information that Mr. Tewksbury and the other SCM personnel consider relevant, from time to time.

SCM provides TIF and HFL shareholders with a number of written reports including a weekly performance estimate and an account statement once each month showing the shareholder's beginning and ending account balance and performance for the previous month. In addition, shareholders are also provided with a monthly performance and risk management summary for TIF, which includes information about TIF's performance, performance attribution, counterparty concentration, forecasted and realized volatility and portfolio liquidity. A third party, CITCO Fund Services (Bermuda) Ltd., provides monthly asset and price verification services on behalf of TIF and TIF's shareholders (including HFL). CITCO's findings are summarized in a report which is provided to TIF's shareholders (including HFL). SCM also provides annual audited financial statements for TIF and HFL shareholders within 120 days of the end of the fund's respective fiscal year. SCM also provides tax reports for shareholders subject to U.S. taxation.

### **Item 14 - Client Referrals and Other Compensation**

SCM does not provide or receive any economic benefits related to client referrals nor does SCM receive any economic benefits for the provision of advisory services to TIF and HFL from anyone who is not a client.

### **Item 15 - Custody**

Although SCM does not maintain physical custody of TIF's assets, SCM's supervised persons may access the assets and therefore SCM has custody of those assets under Rule 206(4)-2 (often referred to as the "Custody Rule") of the Advisers Act. Also, SCM holds some Fund assets in an account with its affiliate, Rand Financial, a qualified custodian. SCM is exempt from many of

the provisions of Rule 206(4)-2 because TIF is audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed to each investor in TIF within 120 days of the end of the Fund's fiscal year. Additionally, in compliance with the Custody Rule, SCM receives an annual internal control report from Rand Financial.

#### **Item 16 - Investment Discretion**

SCM provides discretionary investment advisory services to TIF and has the authority to determine the type and amount of any financial instruments to be bought and sold on behalf of TIF. This includes the discretion to choose the broker or dealer to be used in any transactions and the commission rates to be paid. Therefore, SCM makes decisions to buy or sell investment instruments on behalf of TIF without the consent of the shareholders of TIF. This authority is granted to SCM through the execution of a subscription agreement by TIF's shareholders.

SCM is responsible, under the supervision of HFL's Board of Directors, for the determination that HFL invests all of its assets into TIF. Accordingly, SCM provides discretionary investment advisory services to HFL, and HFL shareholders authorize HFL's investment into TIF through the execution of a subscription agreement.

#### **Item 17 - Voting Client Securities**

SCM maintains Proxy Voting Policies and Procedures (the "Proxy Policy") to ensure that it exercises appropriate voting authority with respect to securities held by TIF. The Proxy Policy and information on SCM's proxy voting record is available upon request from SCM's CCO. After considering the proxy voting requirements pertaining to TIF, SCM has contracted with Egan-Jones Proxy Services ("Egan-Jones") to vote proxies according to a set of pre-determined proxy voting policy guidelines and to track and document proxy votes. SCM retains the ongoing right to override Egan-Jones proxy votes that it does not believe are in the best interest of TIF. Given the nature of TIF's investor base, it is highly unlikely SCM will have a conflict involving proxy voting. In any such circumstance where a conflict of interest may arise (as, for example, if a shareholder of the Fund was an issuer of securities in which the Fund invests or where a shareholder of the Fund is an executive officer of an issuer in which the Fund invests), SCM will follow the recommendation of Egan-Jones and prohibit any over-riding of such recommendation.

With regard to OTIP managed accounts, the unaffiliated investment manager with trading authority over the respective account has been granted full discretionary authority over voting proxies (either as part of the investment management agreement or in a separate instruction). In this regard, while TIF, or a subsidiary of TIF, has legal ownership of the security, there is no authority to vote or direct the voting of proxies relating to securities held in the account. This is to ensure that the outside manager has the ability to vote in accordance with the objectives of the particular strategy related to a managed account.

### **Item 18 - Financial Information**

SCM is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to HFL or TIF, and SCM has not been the subject of a bankruptcy petition at any time during the past 10 years.