

# SONICA CAPITAL

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## **PART 2A of FORM ADV: The Brochure**

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This brochure provides information about the qualifications and business practices of Sonica Capital LLC (the "Adviser" or "Sonica"), an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at (212) 319-5780 or via email at [info@sonicacapital.com](mailto:info@sonicacapital.com). This information has not been approved or verified by the SEC or by any state securities authority.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

This brochure is for informational purposes only. It does not convey an offer of any type and is not intended to be, and should not be construed as, an offer to sell, or the solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle.

## **Item 2. Material Changes**

Since the Adviser's previous Form ADV Part 2A filing dated March 28, 2013, there have been no material changes. The following information reflects routine updates in connection with the annual review and update of Sonica's Form ADV. If the Adviser makes any material changes to the Form ADV Part 2A in the future, the Adviser will revise this Item 2 to include a summary of such changes.

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#### Item 4. Advisory Business

Sonica Capital LLC, a Delaware limited liability company, is an investment adviser with its principal place of business in New York, NY. Sonica commenced operations as an investment adviser on November 1, 2008. Alexander Fodor is the Managing Member of the Adviser.

The Adviser serves as the investment manager for a number of investment funds, including Sonica Partners LP, an investment partnership organized under the laws of Delaware and Sonica International Ltd. and Sonica Master Ltd., both investment funds organized under the laws of the Cayman Islands (collectively the "Funds"). Sonica General Partner LLC serves as the general partner (the "General Partner") of Sonica Partners LP. Interests in the Funds are offered on a private placement basis, in compliance with the exemption provided by Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "1940 Act"), to persons who are sophisticated investors and qualified purchasers, and subject to other conditions that are set forth in the offering documents of the Funds. Sonica also serves as sub-investment adviser to a series of an investment company registered under the 1940 Act (the "Series"). The Series is advised by an unaffiliated investment manager.

The Adviser may, from time to time, serve as the investment adviser or management company for additional funds or products.

Sonica provides investment advisory services on a discretionary basis to the Funds and the Series.

The Adviser provides advice to clients based on specific investment objectives and strategies (see Item 8 for a discussion of the Adviser's strategies). The Adviser does not tailor advisory services to the individual needs of clients.

Investors in the Funds may not impose restrictions on the Funds' investments in certain securities or certain types of securities. The Series may impose restrictions on investing in certain securities or certain types of securities.

The Adviser does not participate in wrap fee programs.

Sonica bases its advice to clients on the investment objectives and restrictions (if any) set forth in the applicable offering memorandum, organizational documents, limited partnership agreement, investment management agreement, sub-advisory agreement, subscription agreements or other agreement, as the case may be (each and collectively, the "Governing Document").

As of February 28, 2014, the Adviser had approximately \$54,700,000 of client assets under management, all of which are managed on a discretionary basis.

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## Item 5. Fees and Compensation

### **Fees from the Funds**

The Adviser is paid an investment management fee equal to 2.0% per annum of the Funds' respective net assets. Investment management fees are charged each quarter in advance based on the net asset value of each capital account of Sonica Partners LP or the net asset value of Sonica International Ltd. (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the first day of the quarter. If a new investor account is established during a quarter or an investor makes an addition to its account during a quarter the investment management fee will be charged as of the effective date of the subscription or the date of the additional contribution and will be prorated for the number of months remaining in the quarter.

The Adviser (or its related person) may also be eligible to receive a performance-based fee or allocation, which is compensation that is based on a share of capital gains on or capital appreciation of the assets of a Fund. This compensation may be allocated to the Adviser (or its related person) and may equal up to 20% of the net profits, subject to a loss carryforward.

The Adviser may waive or modify its investment management fees and performance-based compensation in its discretion.

The Adviser calculates fees and deducts payment from investor asset balances in the Funds. Investment management fees are deducted quarterly in advance and performance-based fees are deducted annually.

The Adviser deducts the investment management fee from Fund accounts by instructing the Fund's custodian. Investment management fees are deducted and paid to the Adviser or its affiliates from the assets of the relevant client accounts.

### **Fees from the Adviser's Sub-Advisory Services**

As sub-adviser to the Series, the Adviser receives a sub-advisory fee at the annual rate of 1% of the average daily net assets of the Series. This fee is paid out of the adviser's own assets (not the assets of the Series) on a monthly basis.

### **Expenses**

The Funds may incur expenses in connection with, among other things, brokerage services discussed in Item 12; fund administration, legal, compliance, accounting, auditing and other professional expenses; shareholder proxy voting services; organizational expenses; investment expenses such as commissions research fees and expenses (including research related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; bank service fees; Fund-related insurance costs; Directors' fees and expenses and other reasonable expenses related to the purchase, sale, or transmittal of the Fund assets. The Adviser may be entitled under the Governing Document to be reimbursed for some or all expenses that it or its related persons incur on behalf of the Funds.

The Adviser pays all expenses incurred by it in connection with the performance of its duties to the Series other than the cost (including taxes, brokerage commissions and other transaction costs, if any) of the securities or other investment instruments purchased or sold for the Series.

Neither the Adviser nor its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees.

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**Item 6. *Performance-Based Fees and Side-by-Side Management***

The Adviser and its investment personnel provide investment advisory services to investment portfolios for multiple clients. The Adviser is paid asset-based fees and it (or its related person) may be eligible to receive performance-based compensation in connection with its providing advisory services to the Funds. The Adviser is paid asset-based fees with respect to the services it provides for the Series.

To the extent that some clients have higher asset-based fees or more favorable performance-based compensation arrangements than other clients, the potential exists for one client account to be favored over another client account.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple client accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser will review investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts will also be periodically compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on asset size. Allocations can be made through the Adviser's order management system based on the assets in each client account, and the Adviser's order management system is designed to ensure that, to the extent orders are aggregated, such orders are price-averaged. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings) to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Compliance Officer.

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**Item 7. Types of *Clients***

The Adviser's clients consist of the Funds and the Series (for which it serves as a sub-adviser).

The initial and additional subscription minimums, if any, are disclosed in the Governing Document of each client.

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research, charting analysis, cyclical analysis as well as use of technical analytical tools and approaches. The investment objective of the Adviser is to achieve superior returns while preserving capital primarily through long and short investments in equity securities.

The Adviser employs the following investment strategy:

The Adviser will employ a research-based approach focused on Quality, Value and Fundamentals. The Adviser believes that a strategy based on the foregoing generates superior returns while limiting risk.

The Adviser will aim to purchase securities of companies with good businesses (Quality) priced at a discount to their perceived intrinsic values (Value) that are growing (Fundamentals) and to short securities of companies with bad businesses (Quality) priced at a premium to their perceived intrinsic values (Value) that are shrinking (Fundamentals). The Adviser believes that this approach will allow the Fund to benefit from the narrowing of the gap between intrinsic value and market value as well as from the growth or shrinkage of the intrinsic value.

Regarding Quality, the Adviser believes that return on equity ("ROE") is the key financial metric in assessing the quality of a business. A business that can sustain a high ROE, often indicative of a strong franchise and/or a strong competitive position which equate to pricing power, is a good one. Conversely, a business that consistently earns a low ROE is a bad one. In either case, the sustainability and direction of ROE is critical to the evaluation of quality. As such, the Adviser and its investment team will spend considerable time understanding the primary drivers of ROE of a given company.

In evaluating Quality, the Adviser will also consider the balance sheet, management and earnings consistency. The Adviser will seek to purchase securities of companies with strong balance sheets and good "owner" management teams and to short securities of companies with weak balance sheets and poor management teams. A strong balance sheet gives a company financial flexibility to increase dividends, to repurchase stock and/or to reinvest in the business. It also allows a company to survive in a weak economic environment, often gaining share from more leveraged competitors. A good management team runs the business well and makes capital allocations that increase shareholder value. In both cases, the Adviser will focus on securities of companies that have what it believes are understandable business models and somewhat predictable earnings, purchasing securities of companies with consistent earnings and shorting securities of companies with inconsistent earnings.

As a matter of Value, the Adviser seeks to invest the assets of the Fund in securities of companies that are priced meaningfully below or above their perceived intrinsic values. The Adviser believes that investing in securities where there is a significant discrepancy between intrinsic value and market value increases the likelihood of capital appreciation while also reducing investment risk. The Fund will aim to purchase securities where the perceived intrinsic values are meaningfully above the market values and to short securities where the perceived intrinsic values are meaningfully below the market values.

With respect to Fundamentals, the Adviser will place emphasis on business fundamentals and how trends in business fundamentals affect the short- to medium-term performance of the security. The Adviser will aim to purchase securities of companies with improving business fundamentals and intrinsic values that are growing and on shorting securities of companies with deteriorating business fundamentals and intrinsic values that are shrinking. An adherence to business fundamentals provides another layer of limiting investment risk.



The Adviser will source potential investments from sector knowledge, quantitative screens and professional networks. The Adviser will implement its investment strategy through an analysis of financial statements as well as primary research on businesses and industries. The research may include discussions with management teams, customers, suppliers, competitors, industry experts, sell-side analysts and other related parties.

To maximize returns and preserve capital, the Adviser will aim to size positions opportunistically, based on identified catalysts.

The Adviser's investment advisory and sub-investment advisory services involve substantial risks to the investors that should be considered carefully. Certain risk factors that may be considered applicable are outlined below. Additional risk factors may be outlined in the Governing Document. It should be noted, however, that there may be other risk factors applicable to such an investment that are not identified but that might still result in material losses to investors. Although the Adviser may attempt to manage these risks through careful research, ongoing monitoring of investments, and appropriate hedging techniques, there can be no assurance that the securities and other instruments purchased which are the focus of its strategies will increase in value or that the Adviser's accounts will not incur significant losses. Prospective investors should also consult their own legal, investment, tax, and other advisers, and the Governing Document, as to whether an investment with the Adviser is appropriate for them.

These methods and investments involve risk of loss to clients and clients must be prepared to bear the loss of their entire investment.

### ***Material Risks (Including Significant or Unusual Risks) Relating to Investment Strategies.***

#### **Short Sales**

The Adviser's investment program includes a significant amount of short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the client's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

#### **Use of Leverage**

Performance may be more volatile if a client's account employs leverage.

#### **Hedging**

There can be no assurance that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if the Adviser did not engage in any such hedging transactions.

#### **Issuer-Specific Changes**

Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than

that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

**Lack of Diversification**

Portfolios will not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, client portfolios are subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

**Interest Rate Risk**

Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities.

***Risks Associated with Types of Securities that are Primarily Recommended (including Significant or Unusual Risks).*****Equity Securities**

The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

**Non-U.S. Securities**

Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

**Illiquid Instruments**

Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.

**Futures and Options**

In connection with the use of futures contracts and options, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in the respective accounts of the Funds or the Series. In addition, the Adviser's investments in security futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.

**Derivatives**

Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial

soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or the Adviser. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the Funds and the Series to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

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**Item 9. Disciplinary Information**

This Item is not applicable.

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**Item 10. Other Financial Industry Activities and Affiliations**

Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither the Adviser nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

The Adviser may in the future enter into agreements or “side letters,” with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in the Governing Document. Such terms and conditions may provide for special rights to make future investments; special redemption rights, relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the investor and/or other terms; rights to receive reports on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Adviser and such investor. The modifications are solely at the discretion of the Adviser.

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

The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its related persons to put the interests of the Adviser's clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser's personnel are also required to comply with applicable federal securities laws. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by related persons.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser or its related persons, as principal, may buy securities from or sell securities to its clients. This practice could create a conflict of interest because the Adviser or related person may have an incentive to buy securities from or sell securities to clients based on its own financial interests, rather than solely the interests of a client. The Adviser generally does not itself trade securities on a principal basis with clients. To the extent that the Adviser and/or its related persons engage in principal securities transactions, any such transactions will comply with Section 206(3) of the Advisers Act.

As a general matter, the Adviser's related persons are not permitted to engage in equity security transactions for their personal securities accounts other than to invest in open-end investment companies (mutual funds) and government securities and upon pre-approval by the Chief Compliance Officer, certain other securities. The Chief Compliance Officer may make an exception to this general policy under certain circumstances.

The Adviser requires its related persons to preclear all transactions in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients. In addition, the Adviser's Code prohibits the Adviser or its related persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the Chief Compliance Officer. All of the Adviser's related persons are required to disclose their securities transactions on a quarterly basis and holdings on an annual basis. All of the Adviser's related persons are also required to provide broker confirmations of each transaction in which they engage and a quarterly certification of such transactions. Trading in employee accounts will be reviewed by the Chief Compliance Officer and compared with transactions for the client accounts and reviewed against the restricted securities list.

The Adviser will provide a copy of the Code to a client or prospective client upon request.

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## Item 12. Brokerage Practices

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include the ability of the broker to provide liquidity, financial stability of the broker, the actual executed price of the security and the broker's commission rates, research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers that are expected to enhance the Adviser's general portfolio management capabilities, the size and type of the transaction, the difficulty of execution and the ability to handle difficult trades, the operational facilities of the brokers and/or dealers involved (including back office efficiency), ability to maintain confidentiality; and the ability to handle a block order for securities and distribution capabilities. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser evaluates the appropriateness of brokerage commissions on an ongoing basis.

The Adviser receives research or other products or services other than execution from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a "soft dollar" relationship. Except for services that would be a Fund expense or as otherwise described in the Governing Documents, the Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations. The use of commissions arising from the Fund's investment transactions for services other than research and brokerage will be limited to services that would otherwise be a Fund expense. The use of commissions to obtain such other services would be outside the parameters of Section 28(e).

The use of client commissions (or markups or markdowns) to obtain research raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

As required by Section 28(e) of the Exchange Act, the Adviser reviews and evaluates its soft dollar practices in order to determine, in good faith, whether, with respect to any research or other products or services received from a broker-dealer, that the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by the Adviser in its other investment activities, including, for the benefit of other client accounts. The Adviser does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

As a result of client brokerage commissions, the Adviser and/or its related persons acquire research and brokerage related services. Such services may include, among other things, the provision of information on economic trends or conditions, political developments, industries, groups of securities, individual countries, and individual companies, as well as post-trade brokerage services or communication services related to the execution, clearing and settlement of transactions. During the last fiscal year, soft dollar payments made on behalf of the Adviser were for the following: real time stock quotes, market data and research, independent macroeconomic research publications and independent equity research.

The Adviser has entered into "client commission arrangements" pursuant to which the Adviser may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to the Adviser. The clients may also pay for research services directly, rather than through commissions arising from the client's investment transactions.

In some instances, the Adviser obtains a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). Such determination will be made based on an evaluation of the research and non-research uses of the product. The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources. The determination of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and clients.

From time to time the Adviser may participate in capital introduction programs arranged by broker dealers, including firms that serve as prime brokers to one or more Funds or recommend these Funds as an investment to clients. The Adviser may place client portfolio transactions with firms which have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

The Adviser, when consistent with market conditions, purchases or sells the same security for clients contemporaneously and using the same executing broker. Such bunched or aggregated orders may enable the Adviser to obtain for clients a more favorable execution and reduced brokerage costs. When an aggregated order is filled completely, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid holding odd lots or excessively small numbers of positions. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may not result in a pro rata allocation to all participating clients.

To the extent permitted by applicable law and the applicable Governing Document, the Adviser may effect "cross transactions" between the Adviser's client accounts in which one client will purchase securities held by another client. The Adviser does not effect any cross transactions involving the Series. The Adviser will direct clients to enter into such transactions only when the transactions are consistent with



the best interests of both clients and at a price that the Adviser believes constitutes best execution for both clients. The Adviser does not receive any commission or commission equivalent in connection with these transactions.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that a trade error occurs, the Adviser's procedure is to ensure that clients are treated fairly. The Adviser has discretion to resolve a particular error in an appropriate manner that is consistent with the above stated policy. Notwithstanding the foregoing, any financial gains or losses resulting from trade errors are generally borne by the client and underlying investors (as more fully described in the Governing Documents).

In connection with its best execution obligations to the Series, Sonica is prohibited from considering the promotion and sale of shares of the Series when selecting a broker-dealer to effect portfolio securities transactions on behalf of the Series.

The Adviser does not currently participate in directed brokerage.

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**Item 13. Review of Accounts**

Each client account is reviewed by the Chief Investment Officer and Managing Member of the Adviser on an ongoing basis to determine whether securities positions should be maintained in view of current market conditions with respect to the Funds and the Series. Matters reviewed include adherence to investment guidelines and the performance of each client account.

The Adviser has retained an independent third-party administrator who reconciles cash and security positions on a daily basis with the records of the Funds' respective prime broker. Sonica reconciles its internal records to that of the Funds and administrator's records regularly.

Investors in the Funds typically receive monthly performance estimates by the first business day following each month end and a monthly statement from the administrator indicating current market value of their interests on the 10th business day after each month end. Investors in the Funds also receive quarterly letters with qualitative commentary on the portfolio and the market as well as quantitative data on the portfolio positioning and performance. In addition, investors in the Funds receive annual audited financial statements within 120 days of year end.

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**Item 14. Client Referrals and Other Compensation**

As stated in Item 12, the Adviser may and has in the past entered into capital introduction agreements with certain financial institutions under which the financial institution does not receive compensation for this service. The Adviser may execute transactions with a broker or dealer that (i) provides Sonica with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Funds, if otherwise consistent with seeking best execution provided the Adviser is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors.

The Adviser receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Adviser to select or recommend broker-dealers based on the Adviser’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Adviser on behalf of its clients. Please see Item 12 for further information on the Adviser’s “soft-dollar” practices, including the Adviser’s procedures for addressing conflicts of interest that arise from such practices.

The Adviser does not currently use solicitors for client referrals. The Funds do not currently engage placement agents for placement of new fund interests but may do so in the future. The Adviser does not directly or indirectly compensate any person for referring investors to the Funds. Additionally, the Adviser does not currently select or recommend broker-dealers based on whether the Adviser or its related persons receive client referrals.

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**Item 15. Custody**

This Item is not applicable.

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**Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to clients as discussed in Item 4. Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement or similar agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held.

Allocations will be made among client accounts eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when the Adviser determines in its discretion that a pro rata allocation is not appropriate, which may include a client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a client's status as a "restricted person" or "covered investor" under applicable regulations.

Securities acquired by the Adviser for its clients through a limited offering will be allocated pursuant to the procedures set forth in the Adviser's allocation policy. The policy provides that the Adviser will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of securities and determining those client accounts eligible to hold such securities. Eligibility will be based on the legal status of the clients and the client's investment objectives and strategies.

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**Item 17. Voting Client Securities**

The Investment Advisers Act of 1940, as amended, generally requires investment advisers to vote all proxies within their authority. To the extent the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser will vote those proxies in the best interest of its clients and in accordance with the Adviser's policies and procedures. The Adviser does not vote proxies where the cost of doing so, in the opinion of the Adviser, would exceed the expected benefits to the client.

The Adviser will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, the Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

The Adviser's policies and procedures contain procedures designed to address potential conflicts of interest that may arise between the Adviser and its clients. The Adviser has sole and exclusive authority and responsibility to vote all proxies on behalf of its clients. Therefore, clients may not direct how the Adviser should vote on a particular proxy. Upon request, the Adviser will provide a client with a copy of its proxy voting policies and procedures and information about how the client's proxies were voted.

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**Item 18. Financial Information**

This item is not applicable.