

Firm Brochure  
ADV Part 2A

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## **Item 1. Cover Page**

This brochure (Form ADV Part 2A) provides information about the qualifications and business practices of Substantia Invest AG ("Substantia"). Substantia is a registered investment advisor ("RIA") with the United States Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

If you have any questions about the contents of this brochure, please contact us by telephone at +41 (0) 43 305 04 10 or by e-mail at [siag@substantia.ch](mailto:siag@substantia.ch).

The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Additional information about Substantia is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). There is no specific level of skill or training required to register as a RIA with the SEC. This Brochure provides information for U.S. clients of Substantia; most provisions of the Advisers Act and of this Brochure do not apply to Substantia's non-U.S. clients. This Brochure has been prepared as of April 30, 2012.

## **Item 2. Material Changes**

No material changes have been made to this brochure since the last annual update of Substantia's brochure in March 2013.

# SUBSTANTIA INVEST AG

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## Item 4. Advisory Business

### Firm Description

Substantia Invest AG ("Substantia" or "the Firm" or "we"), a Swiss corporation based in Zurich, Switzerland, provides investment advisory services to clients resident in the United States ("US"). We also serve US taxpayers or dual citizens living outside the US and clients who have no connection to the US. Substantia commenced operations in 1980.

### Principal Owners

Gilbert Huber and Hanspeter Schutzbach principally own Substantia International AG.

### *Discretionary Portfolio Management*

Substantia offers a discretionary asset management service to high net worth clients and their families. The services provided are designed for investors who wish to have their assets fully managed by Substantia and include asset allocation, investment selection, active portfolio management and portfolio rebalancing consistent with the circumstances, preferences and objectives of each client.

Substantia discusses a client's prior investment history, as well as family composition and background. As part of this information-gathering process, Substantia determines the client's individual objectives, time horizon, risk tolerance, tax situation and liquidity needs and develops a tailored investment policy.

Each client's assets are managed in a separate account (an "Account") maintained at a third-party financial institution.

Substantia purchases and sells securities for the client's Account without prior consent of or notification to the client. Substantia determines the securities that are bought and sold for the client's Account and the total amount of the purchases and sales.

Substantia's authority may be subject to conditions imposed by individual clients as set forth and agreed upon in the investment management agreement entered into between Substantia and the client. For example, a client may restrict or prohibit transactions in certain types of securities.

Client Accounts broadly are managed in a similar manner, however, differences in each portfolio occur due to client specific objectives, tax considerations, liquidity needs, risk tolerance, reference currency, expected returns, legal restrictions, investment time horizon and overall suitability.

Substantia primarily invests in: Equity securities, fixed income securities, mutual funds, exchange traded funds, hedge funds, options and precious metals. For the purpose of diversification, client accounts will hold non-dollar securities in markets outside the United States.

Whilst generally Substantia makes investments with a longer time horizon, Substantia may recommend changes to allocations in an attempt to take advantage of conditions in the current economic environment whilst being sensitive to transaction costs and taxes, as applicable. Such changes may involve underweight or overweight positions designed to capitalize on current economic conditions over the short-term.

### *Limits on types of securities we recommend*

Substantia's advice is limited to the types of securities and transactions as set forth in Item 8.

### Wrap Fee Programs

Substantia does not participate in wrap fee programs.

### Assets under Management and Advisement

Substantia managed approximately \$ 167'810'000 million on a discretionary basis as of December 31, 2013.

## Item 5. Fees and Compensation

Substantia generally charges fees for its services as a percentage of the market value of assets under management ("AUM"). The asset management fee is charged quarterly in arrears. AUM is measured with reference to the last business day of the respective calendar quarter. The fee generally is charged in the reference currency of the Account.

Substantia is a fee-only investment adviser and does not receive undisclosed remuneration from third parties in connection with its investment advisory services. Discounts, finder's fees or any other remuneration received by Substantia from third parties will be disclosed to the client and

credited against Substantia's investment advisory fees. Substantia does not manage or advice accounts based on commissions, subscriptions fees, or hourly rate charges. Compensation owed to Substantia is not payable in advance.

In all cases, Substantia may waive, discount or negotiate fees at its discretion. Substantia may also charge additional fees for services outside the scope of the services described above. Any additional fees are disclosed to the client.

Substantia relies on custodian banks of its clients to value the assets in the respective client Accounts, and Substantia computes its investment advisory fees based on these valuations provided by the custodian bank. At the end of the quarter, Substantia arranges with the custodian bank for the direct payment of its fee from each client's Account. The statement from the custodian bank will reflect all amounts disbursed from the Account, including the amount of any advisory fee paid to Substantia.

## *Fees for Discretionary Portfolio Management*

The annual fee is 1% of AUM. Fees can be negotiated. In lieu of a fixed fee, eligible clients have the choice to pay Substantia a performance based fee (outlined below in Item 6) for discretionary asset management services. Particularly in the context of clients who choose to pay a management fee with a performance based component, the fees charged by Substantia may be higher than the fees normally charged by other investment advisors offering similar investment management services.

There is no minimum annual fee.

## *Other fees and expenses*

Fees charged by Substantia do not include custodian fees, fees for trade settlement, brokerage commissions, or any other fee imposed by the custodian bank or the broker. Substantia's fees do not include management or other fees charged by funds or other products that client Accounts may be invested in from time to time.

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

### *Performance Based Fee Scheme*

As an alternative to the fixed asset management fee for discretionary management, certain clients may opt to compensate Substantia based on a

performance based fee scheme described below. In accordance with Rule 205-3 under the Advisers Act, only clients who meet the following requirements may opt for the performance based fee scheme: (i) clients with at least \$ 1,000,000 under management with Substantia; (ii) clients with more than \$ 2,000,000 of net worth, excluding the value of the primary residence and certain debt secured by the property; or (iii) clients who are qualified purchasers under Section 2(a)(51) of the Investment Advisors Act of 1940, as amended (which generally is defined to include only individuals with more than \$ 5,000,000 in investments or an entity such as corporations, trusts, partnerships, or institutional investor that owns and invests on a discretionary basis at least \$ 25 million in investments).

Substantia charges a performance fee based on performance of the managed portfolio in excess of a hurdle defined based on the risk-free rate (defined as the LIBOR rate for the period) of the reference currency (the "Hurdle"). The Hurdle rate is measured based on the average 3-month interest rate in reference currency and as stated by Bloomberg.

On a calendar year basis, Substantia's performance fee is charged at 15% of the first 5% of performance in excess of the Hurdle rate and 20% thereafter, or, expressed with a formula: 1<sup>st</sup> additional rate = Performance – (risk free rate/360\*days)

Fee = (Average assets \* 1<sup>st</sup> additional rate) \* 15%. Performance is calculated for this purpose based on the performance reported by the custodian bank. The performance fee is calculated in the first week of January and charged, if applicable, in a lump sum. For accounts opened during a calendar year, the hurdle rate is adjusted on a pro rata basis. There is no high water mark in calculating the performance fee.

Substantia potentially can receive higher fees with a performance based compensation structure than from those accounts that pay the asset based fee schedule described above. To minimize this conflict, Substantia generally will enter into a performance fee arrangement upon the request of a client.

### *Side-by-Side Management*

Substantia manages many client Accounts and as a result of differences in the fees charged on various account, Substantia has conflicts related to such side-by-side management of different

accounts. For example, Substantia generally manages more than one account according to the same or a substantially similar investment strategy and yet have a different fee schedule applicable to such accounts as a result of the respective clients' AUM with Substantia or a client's election to compensate Substantia on a performance basis.

Side-by-side management of different types of accounts may raise conflicts of interest when two or more accounts invest in the same securities or pursue a similar although not identical strategy. These potential conflicts include the favorable or preferential treatment of an account or a group of accounts, conflicts related to the allocation of investment opportunities, particularly with respect to securities that have limited availability, such as initial public offerings, and transactions in one account that closely follow related transactions in a different account. In addition, the results of the investment activities for one account may differ significantly from the results achieved for other accounts, particularly if Substantia individually tailors clients' Accounts.

Substantia has policies and procedures in place aimed to ensure that all client Accounts are treated fairly and equitably. Substantia strives to equitably allocate investment opportunities among relevant Accounts over time. In addition, investment decisions for each Account are made with specific reference to the individual needs and objectives of the Account. Accordingly, Substantia may give advice or exercise investment responsibility or take other actions for some clients (including related persons) that may differ from the advice given, or the timing and nature of actions taken, for other clients. Investment results for different Accounts, including Accounts that are generally managed in a similar style, also may differ as a result of these considerations. Some clients may not participate at all in some investments in which other clients participate, or may participate to a different degree or at a different time.

## Item 7. Types of Clients

Substantia offers investment management services to high net worth individuals and families and their foundations, trusts, estates, holding companies or other estate planning structures.

In addition to serving US resident clients, Substantia provides discretionary investment advisory services to non-US resident clients. The provisions of the Advisers Act do not apply to the management services provided by Substantia to these non-US clients. This brochure describes

only the service offering to US persons as defined under SEC Rule 902.

Generally, Substantia prefers its client relationships to have a minimum of \$1,000,000 of assets under management. Substantia may accept accounts below the minimum requirements, and will retain accounts that have dropped below the minimum requirement due to market fluctuation or investment performance. Related accounts can be aggregated.

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

### Methods of Analysis

Substantia invests using a long-only investment approach aimed at generating sustainable, long-term results, where capital preservation is as important as capital growth. Substantia invests based on its views of market trends, which are reflected in its asset allocations in its discretionary mandates. Substantia manages assets by using a top-down, macro-economic analysis in combination of bottom-up analysis of both market timing and specific security selection. Generally, Substantia seeks to obtain broad diversification across countries, industries, company size, long-term themes and short term opportunities.

### Investment Strategies

The investment strategies used to implement investment advice given to clients by Substantia include long and short term securities purchases, trading, margin transactions and option writing, including covered options, uncovered options or spreading strategies. Substantia's investment strategies seek to maximize investment return potential by profiting from upswings in macro-economic cycles: productivity cycles, demographic cycles, business cycles, profit cycles, interest rate cycles, valuation cycles and currency cycles.

Investment selection also is based on the value to be obtained from diversification, optimizing risk/return profiles, identifying value and forecasting trends, and avoiding constraints arbitrary benchmarks. Substantia uses fundamental research to complement its investment selection. Substantia's own analysis is supplemented with third-party independent research.

## Types of Securities

Substantia offers investment management and advisory services on the following types of securities and transactions: exchange-listed securities, securities traded over-the-counter, securities issued by non-US issuers, corporate debt securities (and other commercial paper), certificates of deposit, investment company securities such as mutual funds, U.S. or foreign government securities, exchange traded funds, options, structured products and other derivatives and foreign exchange transactions. Some of these securities, particularly those issued outside of the US, may not be registered with the SEC. Substantia is able to invest clients on a discretionary basis in securities offered outside the US to non-US investors in reliance on Regulation S under the Securities Act of 1933.

Investments in private funds may be limited to “accredited investors” or “qualified purchasers,” and may require investors to lock-up their assets for a period of time. These investments may have limited or no liquidity, and they may involve different risks than investing in registered funds and other publicly offered and traded securities. In the context of a discretionary mandate, Substantia may invest client Accounts into such securities without client consent. Substantia relies on the valuation and performance data provided directly from the private funds. Private funds may often be delayed in providing Substantia with the valuation information; therefore, Substantia may likewise be delayed in reporting this information to the client.

Substantia will rely on the accuracy of a client's representations in making corresponding representations regarding the investment restrictions on behalf of a client's Account in connection with certain derivative, private fund or other similar investments with qualification restrictions. Substantia requires notification by the client if the client's representations become inaccurate.

In certain cases Substantia will recommend and invest precious metals. Substantia does not invest in real properties.

## Material Investment Risks

Clients should bear in mind that investing in securities involves a risk of loss. Clients should be prepared to bear the risk of losing their investment in securities. Past performance is not an indication as to future results.

Among other risks, all investments made by Substantia will be subject to market risk, liquidity risk, and interest rate risk, and may be subject to credit and counterparty risk, risk in fluctuations of commodity pricing, risk of loss due to political and economic developments in foreign markets, and risks involving movements in the currency markets.

*Market Risk.* Market risk refers to the risk of loss arising from general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws and national and international political circumstances. Each Account is subject to market risk, which will affect volatility of securities prices and liquidity. Such volatility or illiquidity could impair profitability or result in losses.

*Risk Related to Equity Investments.* Investments in equity securities generally involve a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. The value of specific equity investments generally correlates to the fundamentals of each particular security, but prices of equity investments may raise or fall regardless of fundamentals due to movements in securities markets.

*Risks Related to Fixed Income Investments.* Investments in fixed income securities (*i.e.*, bills, notes, bonds, preferred, convertibles, ETFs and funds) involve a number of risks such as credit, interest rate, reinvestment, and prepayment risk, all of which affect the value of the security and volatility of such value. In general, fixed income securities with longer maturities are more volatile. Additionally, the prices of below investment grade (lower credit quality) securities fluctuate more than investment grade issues. Prices are sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. Developments in the credit market may have a substantial impact on the companies we may invest in and will affect the success of such investments. In the event of a default, the investment may suffer a partial or total loss.

*Risks Related to Investments in Funds.* For purposes of this discussion, the term “Fund” includes, but is not limited to, a U.S. or non-U.S. unit investment trusts, open-end and closed-end mutual funds, hedge funds, private equity funds, venture capital funds, real estate investment trusts, exchange traded funds (“ETFs”) and any other private alternative or investment fund. Investments in Funds carry risks associated with the particular Fund. Each Fund and the respective manager will charge their own management and other fees, which will result in a Client bearing an additional level of fees and expenses. U.S. mutual funds generally must distribute all gains to investors, including investors who may not have an economic gain from investing in the fund, which can lead to negative tax effects on investors, particularly non-U.S. persons. Investments in certain non-U.S. funds by U.S. persons result in U.S. tax and reporting obligations and failing to comply with such requirements can result in significant penalties. Funds generally have unique risks of loss as described in their offering documents. Funds can make use of leverage to enhance returns, which raise the risk of default, interest rate risk, and increase volatility. Certain Funds invest in derivatives, which can raise specific counter-party risks. Funds that are not traded can have illiquidity and valuation risks resulting in the inability to redeem or sell the Fund on demand. See the discussion below relating to risks in structured products and derivatives for more information on the risks of investing in Funds.

#### *Risks related to Structured Products & Derivatives:*

Substantia may invest in structured products or derivatives or invest in Funds that hold investments in structured products or derivatives. In addition to the risks that apply to all investments in securities, investing and engaging in derivative instruments and transactions may involve different types of risk and possibly greater levels of risk. These risks include, but are not limited to the following:

*Leverage.* Certain investment instruments such as derivatives may use leverage to achieve returns. The use of leverage may have the effect of disproportionately increasing an account’s exposure to the market for the securities or other assets underlying the derivative position and the sensitivity of an account’s portfolio to changes in market prices for those assets. Leverage will tend to magnify both the positive impact of successful investment decisions and the negative impact of

unsuccessful investment decisions by Substantia on an account’s performance.

*Counterparty Credit Risk.* When a derivative is purchased, a client’s Account will be subject to the ability and willingness of the other party to the contract (a “counterparty”) to perform its obligations under the contract. Although exchange-traded futures and options contracts are generally backed by a guarantee from a clearing corporation, an Account could lose the benefit of a contract in the unlikely event that the clearing corporation becomes insolvent. A counterparty’s obligations under a forward contract, over-the-counter option, swap or other over-the-counter derivative contract are not so guaranteed. If the counterparty to an over-the-counter contract fails to perform its obligations, an account may lose the benefit of the contract and may have difficulty reclaiming any collateral that an account may have deposited with the counterparty.

*Lack of Correlation.* The market value of a derivative position may correlate imperfectly with the market price of the asset underlying the derivative position. To the extent that a derivative position is being used to hedge against changes in the value of assets in an account, a lack of price correlation between the derivative position and the hedged asset may result in an account’s assets being incompletely hedged or not completely offsetting price changes in the derivative position.

*Illiquidity.* Over-the-counter derivative contracts are usually subject to restrictions on transfer, and there is generally no liquid market for these contracts. Although it is often possible to negotiate the termination of an over-the-counter contract or enter into an offsetting contract, a counterparty may be unable or unwilling to terminate a contract with an account, especially during times of market instability or disruption. The markets for many exchange traded futures, options and other instruments are quite liquid during normal market conditions, but this liquidity may disappear during times of market instability or disruption.

*Less Accurate Valuation.* The absence of a liquid market for over-the-counter derivatives increases the likelihood that Substantia will not be able to correctly value these interests.

#### *Risks Relating to Foreign Currency Exposure.*

Accounts managed by Substantia are routinely subject to foreign currency risks and bear a potential risk of loss arising from fluctuations in

value between the U.S. Dollar and such other currencies. Substantia invests in securities and other investments that are denominated in currencies other than U.S. Dollars. Some client's Accounts may hold significant non-dollar cash positions. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. Often clients are seeking this foreign currency exposure. Thus, Substantia generally does not seek to hedge the foreign currency exposure. Even to the extent that Substantia does seek to hedge the foreign currency exposure, such hedging strategies may not necessarily be available or effective.

*Non-U.S. Investments.* Investments in non-U.S. securities expose a client's portfolio to a number of risks not always evident in U.S. markets. Such risks include, among other things, trade balances and imbalances, economic policies of various foreign governments, exchange control regulations, withholding taxes, potential for nationalization of assets or industries, and political instability.

*Risks Related to Precious Metal Accounts & Physical Precious Metals.* Precious metal accounts and investments in physical precious metals offered by custodian banks present special investment risks. These metal accounts generally are notated with reference to the market price of the respective precious metal as determined by the respective custodian bank. The value of precious metals is volatile and generally based on the current spot or market price of the particular metal. The value of precious metals is driven by a variety of factors on a global basis including, among other factors, industrial demand, market supply, and investor demand. Metals should not be perceived as safer investments but rather this asset class also is speculative and volatile. Unless specifically agreed by the custodian bank, a precious metal account generally does not represent a right to convert to physical delivery and as such, generally there is a counterparty risk based on the financial strength and solvency of the custodian bank to pay the monetary equivalent of the notated value in the precious metal account. Alternatively, in the case of non-segregated physical holdings, there are other risks including the potential inability for the custodian bank to deliver the physical metal timely and liquidity risks associated with taking physical delivery of precious metals. Clients should see the specific risk disclosures issued by the custodian bank relating to precious metal accounts and physical precious metals.

## Item 9. Disciplinary Information

Substantia has not been involved in any legal or disciplinary events.

## Item 10. Other Financial Industry Activities and Affiliations

Substantia management personnel are neither registered, nor have an application pending to register as, broker-dealers, registered representatives of a broker-dealer, future commissions merchants, commodity pool operators, commodity trading advisors, or associated persons of the foregoing entities.

Substantia has set up and taken over the distribution for the Global Brand Leader Fund, based in Switzerland. The fund is not registered in the US and not offered for sale in the US. Substantia might invest its discretionary clients in the fund under the condition, that the fund fulfills all necessary US tax requirements.

Substantia is a member of VQF (member number 10951). The VQF Financial Services Standards Association is organized under private law as an Association under the terms of Art. 60 et seq. of the Swiss Civil Code (SCC) (established 1998) recorded in the Commercial Register of the Canton of Zug and is the oldest and largest self-regulatory organization (SRO) pursuant to Art. 24 of the Anti-Money Laundering Act (AMLA), with the official recognition of the Federal Financial Market Supervisory Authority (FINMA). In addition, the VQF also has rules of professional conduct for asset managers, which are officially recognized by FINMA and in this regard is active as an Industry Organization for independent Asset Managers (BOVV). In this way, Substantia is subject to the regulations of the Swiss financial regulator, FINMA.

Substantia does not recommend or select other investment advisers for its clients.

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

Substantia seeks to minimize conflicts of interest and resolve those conflicts of interests in favor of its clients to the extent it determines reasonable and necessary in accordance with its Code of Ethics.



## Code of Ethics

Substantia treats all clients equitably and has a duty to act in its clients' best interests. Except as otherwise described in this brochure, the interests of clients will be placed above Substantia's interests in case of any conflict. Substantia has adopted a Code of Ethics (the "Code") and maintains a written policy covering General Principles of Professional Conduct. Covered in this policy are procedures governing personal securities transactions by Substantia and its personnel. The Code also provides guidance and instruction to Substantia and its personnel on their ethical obligations in fulfilling its duties of loyalty, fairness and good faith towards the clients.

The overriding principle of Substantia's Code of Ethics is that all employees of Substantia owe a fiduciary duty to clients for whom Substantia acts as investment adviser or sub-adviser. Accordingly, employees of Substantia are responsible for conducting personal trading activities in a manner that does not interfere with a client's portfolio transactions or take improper advantage of a relationship with any client.

The Code contains provisions designed to try to: (i) prevent, among other things, improper trading by Substantia's employees; (ii) identify conflicts of interest; and (iii) provide a means to resolve any actual or potential conflicts of interest in favor of the clients. The Code attempts to accomplish these objectives by, among other things: (i) requiring pre-clearance of specific trades, which includes documenting any exceptions to such pre-clearance requirement; (ii) restricting trading in certain securities that may cause a conflict of interest, as well as (iii) periodic reporting regarding transactions and holdings of employees.

The Code contains sections including, but not limited to, the following key areas: (i) restrictions on personal investing activities; (ii) gifts and business entertainment; and (iii) outside business activities.

The Code also provides for Substantia's execution of supervisory policies and procedures, and the review and enforcement processes of such policies and procedures. Substantia has designated a Chief Compliance Officer responsible for maintaining, reviewing and enforcing Substantia's Code of Ethics and corresponding policies and procedures.

The fundamental position of Substantia Advisors is that, in effecting personal securities transactions, personnel of Substantia Advisors must place at all times the interests of clients ahead of their own pecuniary interests. All personal securities transactions by these persons must be conducted in accordance with the Code of Ethics and in a manner to avoid any actual or potential conflict of interest or any abuse of any person's position of trust and responsibility. Further, these persons should not take inappropriate advantage of their positions with or on behalf of a client.

If a person subject to the Code of Ethics fails to comply with the Code, such person may be subject to sanctions, which may include warnings, disgorgement of profits, restrictions on future personal trading, and, in the most severe cases, the possibility of dismissal.

Substantia will provide a copy of its General Principles of Professional Conduct to any client or prospective client upon request.

## Participation or Interest in Client Transactions

Although Substantia does not hold proprietary positions, on rare occasions Substantia's related persons may own, buy, or sell for themselves the same securities that they or Substantia have recommended to clients. Thus, from time to time, a client Account may purchase or hold a security in which a related person of Substantia has financial interest or an ownership position, or a related person may purchase a security that is held in a client Account.

## Item 12. Brokerage Practices

Most of Substantia's clients have existing accounts or open new accounts at custodial banks in Switzerland. Each client may select the bank for his or her Account. Substantia does not select custodial banks on a client's behalf but may recommend a custodian Bank to the client. Substantia occasionally may maintain a list of preferred custodians whereby Substantia has negotiated pricing arrangements for its clients. In selecting a preferred custodian, Substantia uses without limitation the criteria described below regarding Substantia's evaluation of best execution for broker-dealers.

Generally, each Swiss custodian bank has its own policies and procedures relating to brokerage. In cases where the custodial bank requires Substantia to route securities orders through the

trading desk of the bank, then Substantia will not have discretion in selecting the broker-dealer and the client should be aware of the incumbent risks associated with such arrangement. In cases where the custodial bank will settle with third-party broker-dealers, then Substantia will select the broker-dealer as described in this Item 12.

## *Substantia Selection of Broker-Dealers*

In selecting brokers and dealers to effect client transactions, Substantia attempts to obtain for clients: (i) the prompt execution of client transactions while market conditions still favor the transaction, and (ii) the most favorable net prices reasonably obtainable. This is called “best execution.” In placing orders to purchase and sell equity securities, Substantia selects brokers that it believes will provide the best overall qualitative execution given the particular circumstances. A broker may provide more favorable terms and a higher quality of service to customers who place a higher volume of transactions through that broker. Accordingly, to obtain the benefits of higher volume trading for clients, we may place a large portion of client equity transactions through a limited number of brokers that meet Substantia's quality standards. When selecting a new equity broker, Substantia conducts a due diligence review of the broker to evaluate whether the broker is likely to provide best execution. We may consider any of the following factors:

- The ability of the custodian bank to settle transactions with the broker.
- The quality of services provided (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range).
- The extent of coverage of the various markets Substantia trades in.
- The broker's ability to communicate effectively with Substantia.
- The broker's ability to execute and settle difficult trades.
- Whether or not the broker offers lower cost electronic trading.
- The broker's clearance and settlement efficiency.
- Whether or not the broker can handle Substantia's range of order sizes.
- The broker's ability to maintain confidentiality and anonymity.
- The reputation of the broker.
- The stability and financial strength of the broker.

Due to the fact Substantia is based in Switzerland and many of the securities purchased are non-US securities, the brokers used by Substantia may not be registered with the SEC under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Substantia's Chief Compliance Officer reviews the due diligence performed and approves or rejects the selection of each broker. On a regular basis, Substantia monitors the services provided by the approved brokers, the quality of executions and research, commission rates, the overall brokerage relationship, and any other issues. Substantia will periodically reconsider whether placing a large portion of client trades through a particular broker continues to be in the best interest of our clients.

## *Brokers Selected by the Custodian Bank*

If required by the custodian bank, Substantia effectuates security transactions through the custodian bank or the broker or dealer designated by the custodian bank selected by the client. In such cases, Substantia cannot guarantee that the client will receive best execution or the best commissions because Substantia does not control these factors. Clients should be aware of the potential that the broker-dealer used for transactions may not be a registered broker-dealer under the Exchange Act.

Clients also should be aware of the following disadvantages associated with Substantia not having the ability to select the broker-dealer:

- Clients are solely responsible for negotiating the commission rates and fees paid to the Swiss custodian bank where such custodian bank requires Substantia to trade through its broker-dealer. Substantia will not be able to negotiate commission rates with the designated broker, and we will not have any negotiating leverage that results from the ability to trade away from a designated broker.
- Clients may pay higher commission rates than those paid by other clients whose trades are placed with a broker-dealer chosen by Substantia, may receive less favorable trade executions, and/or may not obtain best execution on their transactions.
- Accounts will not be able to participate in aggregated or block transactions with other clients who maintain their Accounts at other custodian banks. This can limit the ability to benefit from volume discounts or more

favorable terms that might be available from aggregated transactions.

## *Client Directed Brokerage*

Generally, Substantia does not permit clients to direct brokerage other than as outlined above in the context of a custodian bank selected by the client that requires the use of a specified broker-dealer.

## *Block Trades*

Substantia generally will combine orders into block trades when purchasing the same security for multiple client Accounts. Such aggregated orders ("block trades") will be pre-allocated among the participating client Accounts. Participating Accounts in a block trade placed with the same broker or the same custodian bank generally will receive an average price and pay a pro rata share of any transaction costs. Partial fills of transactions will be allocated on a pro rata share basis.

Because Substantia's clients maintain Accounts at different custodian banks and because many of these custodian banks mandate the use of a specific broker (see description above), often Substantia places more than one block trade for the same security with more than one broker. Substantia transmits such block trades to more than one broker in a random pattern (*i.e.*, Substantia does not favor one custodian bank or broker over another with respect to the order in which block trade orders are sent). The average price realized on a securities order placed with different brokers will vary broker to broker, and clients generally will receive different average prices and transaction costs for the same security order depending upon the custodian bank and the respective broker used in the block trade. Also note, since most Swiss custodian banks warehouse securities orders until filled, there may be delays in settlement between client Accounts depending on the practice of the respective custodian bank and/or broker.

## *Decision Making Process; Balancing the Interests of Multiple Client Accounts*

In making the decision as to which securities are to be purchased or sold and the amounts thereof, Substantia is guided by the general guidelines set up at the inception of the adviser-client relationship in cooperation with the client and a periodic review of the asset allocation. These general guidelines cover such matters as the relative proportion of

debt and equity securities to be held in the portfolio, the degree of risk that the client wishes to assume and the types and amounts of securities to be held in the portfolio. Substantia's authority may be further limited by specific instructions from the client, which may restrict or prohibit transactions in certain securities.

Substantia may manage numerous accounts with similar or identical investment objectives or may manage accounts with different objectives that may trade in the same securities. Despite such similarities, portfolio decisions relating to client investments and the performance resulting from such decisions may differ from client to client. Substantia will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible clients, particularly if different clients have selected different investment profiles, have materially different amounts of capital under management with Substantia or different amounts of investable cash available. In certain instances such as purchases of less liquid publicly traded securities or oversubscribed public offerings, it may not be possible or feasible to allocate a transaction pro rata to all eligible clients, especially if clients have materially different sized portfolios. Therefore, not all clients will necessarily participate in the same investment opportunities or participate on the same basis.

## *Use of Soft Dollars*

Substantia may maintain soft dollar arrangements, and to the extent it does it will only do so in accordance with the conditions of the safe harbor provided by Section 28(e) of the Exchange Act. Section 28(e) is a "safe harbor" that permits an investment manager to use brokerage commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process.

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, certain valuation and pricing data and economic data); and advice from brokers on order execution.

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 investment 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.

## Trade Errors

Although Substantia's goal is to execute trades seamlessly in the manner intended by the client and consistent with its investment decisions, Substantia recognizes that errors can occur for a variety of reasons. Substantia's policy in dealing with such errors is to:

- Identify any errors in a timely manner.
- Correct all errors so that any affected account is placed in the same position it would have been in had the error not occurred.
- Incur all costs associated with correcting an error (or to pass the costs on to the broker, depending on which party is at fault). Costs from corrective actions are not to be passed on to a client.
- Evaluate how the error occurred and assess if any changes in any processes are warranted or if any continuing education is required.

The consequences and the required corrective measures may be different depending upon the nature of the error or the account affected.

## Item 13. Review of Accounts

All Accounts are reviewed at least quarterly by the Chief Compliance Officer and Chief Executive officer in an effort to ensure that they remain aligned with the client's investment plan and are positioned appropriately given current market conditions as part of Substantia's general investment process.

## Item 14. Client Referrals and Other Compensation

Substantia is a fee-only adviser. Substantia's policy is not to accept compensation from third parties relating to the investment advice it gives to its clients. To the extent Substantia receives a referral fee for an investment it recommends to its clients, it will reduce the fees owed by the respective client to Substantia or will credit the respective client's account for the applicable amount. For these purposes, referral fees include marketing fees, discounts, finder's fees, service fees, including shareholder service fees, referral fees, 12b-1 fees or bonus commissions paid by mutual funds, privately offered funds, insurance products, variable annuities or other investment products paid to Substantia for recommending an investment to its clients, for investing client funds in such product or for marketing assistance or the performance of certain administrative tasks associated with making an investment.

Substantia may pay fees for client referrals. Such arrangements comply with the conditions and requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940.

Substantia's employees or associated persons may be invited to attend seminars and meetings with the costs associated with such meetings borne by a sponsoring brokerage firm or other party extending the invitation.

## Item 15. Custody

Substantia typically is given authority to have its fees directly deducted from a client's account. Consequently, Substantia is deemed to have custody of such funds. Substantia has established procedures to ensure the client's account is held at a qualified custodian in a separate account for each client. The client establishes the bank account directly and therefore is aware of the qualified custodian's name, address and the manner in which investments are maintained. Account statements are prepared by the custodian bank and delivered directly to the client or the client's representative at least quarterly. Generally, these statements include a listing of all valuations and all transactions occurring during the period. Clients should carefully review these statements and when they have questions contact either Substantia or the custodian bank. The custodian bank may provide, generally upon a client's request, a tax report for the client.

## Item 16. Investment Discretion

Substantia accepts discretionary authority to manage client accounts as described above. Clients rarely restrict the authority by which Substantia may act; however, each client has the opportunity to communicate any form of limitation in writing. In the context of a discretionary mandate, Substantia makes investment decisions without consulting the client by utilizing its limited power of attorney for the management of the account maintained at the custodian bank selected by the client. Substantia never has discretionary authority to select a qualified custodian for a client's account.

Substantia has not been the subject of a bankruptcy petition at any time. As of the date of this brochure we do not believe it is reasonably likely that any future liability will impact our ability to meet our contractual commitments to our clients.

## Item 17. Voting Client Securities

### Proxy Voting

Substantia generally does not have the authority to vote client proxies. Clients make arrangements directly with their custodian to vote proxies for securities or where proxy or other solicitation materials have to be sent to. If Substantia inadvertently receives any proxy materials on behalf of a client, Substantia will promptly forward such materials to the client. Substantia will exercise investment authority for certain corporate actions (such as, but not limited to, tenders, rights offerings, splits, etc.) in connection with discretionary accounts.

Clients who have questions about proxies may contact Substantia for further information.

### Class Actions

Substantia does not direct client participation in class action lawsuits. Substantia will determine whether to return any documentation inadvertently received regarding clients' participation in class actions to the sender, or to forward such information to the appropriate clients.

Substantia will not advise or act on behalf of clients in any legal proceeding, including bankruptcies or securities shareholder class action litigation involving securities held or previously held in client accounts. Accordingly, Substantia is not responsible for responding to, or forwarding to clients, any class action settlement offers relating to securities currently or previously held in the client account.

## Item 18. Financial Information