

## **Form ADV Part 2A: Firm Brochure**

# **Alumina Investment Management, LLC**

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This brochure provides information about the qualifications and business practices of Alumina Investment Management, LLC. If you have any questions about the contents of this brochure, please contact Greg Kares at 980-233-3001 or [greg.kares@aluminaim.com](mailto:greg.kares@aluminaim.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## Item 2: Material Changes

There has been no material changes since this brochure was last filed with the SEC during February 2013.

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## Item 4: Advisory Business

Alumina is an independent private investment firm founded in 2012 and organized under the laws of the state of North Carolina as a limited liability company. Alumina is principally owned and controlled by Greg Kares, Principal.

We use the terms “Alumina”, “we” or “us” in this brochure to refer to Alumina Investment Management, LLC.

Alumina offers both discretionary and nondiscretionary investment management services to a variety of institutional investors which primarily includes banks and life insurance company trusts as well as non-discretionary consulting and analytical support to large financial institutions. Our firm tailors its services to the specified investment objectives and restrictions set forth in each client’s investment management agreement and related governing documents.

### Investment Management

Our investment management services are generally provided to a variety of institutional investors that includes banks and private investment trusts that serve as an investment option for insurance companies as an underlying funding option for their policies. We manage the assets of the trusts

with the objective to provide a total return that is consistent with a targeted crediting rate while providing a high level of capital preservation.

In providing services to our clients, among other things, we (i) manage our clients' assets in accordance with the terms of the applicable investment management agreement; (ii) formulate investment objectives; (iii) direct and manage the investment and reinvestment of our clients' assets; and (iv) provide periodic reports to our clients.

Our clients generally adopt investment guidelines and restrictions relating to the types and dollar amount of securities that it may purchase. We tailor our investment decisions to meet any applicable investment guidelines. Investment Management services can be provided on either a discretionary or nondiscretionary basis according to the needs of a particular client.

#### Consulting and Analytical Support

We work with major banking institutions to evaluate and analyze the risks and opportunities associated with managing a bank investment portfolio consisting of a wide variety of fixed income assets over numerous market cycles. We perform an extensive review of a bank's interest rate measurement systems and processes, then develop an investment strategy with the objective of managing the bank's interest rate risk in light of deposit product reactivity, the sensitivity of all core banking functions, hedging strategies, accounting functions, the economic outlook and the impact of regulatory actions.

After the investment strategy has been implemented, we provide the bank with modeling analytics and reporting support on a monthly basis. We monitor the portfolio to ensure that interest rate risk and certain credit exposures are within acceptable limits. We may also provide additional and / or ongoing nondiscretionary portfolio management support with the aim of helping bank clients achieve their interest rate risk, credit risk and / or other management objectives. We also work with the bank to develop presentations for regulators, auditors and rating agencies.

As of December 31, 2013, Alumina had \$ 132,855,669 assets under management on a discretionary basis and \$ 3,070,306,872 assets under management on a non-discretionary basis.

### **Item 5: Fees and Compensation**

We generally receive compensation from our clients based on either a percentage of the net asset value of the account or a pre-negotiated fixed amount.

We currently charge our investment management clients an annual fee based on the value of the account. As of the date of this brochure, the annual fee ranged from .20% to .75%. We generally invoice clients for the asset-based fee on a monthly or quarterly basis in arrears. We charge our clients a pro-rated fee with respect to any capital contribution occurring other than at the commencement of a calendar month / quarter.

Our clients who receive consulting and analytical support services pay a pre-negotiated annual fixed fee that is based on the costs associated with the services provided. The actual amount of the

fee is determined by assessing a number of factors including, but not limited to, the complexity of the client, the size of the client, and the human costs associated with providing the services. The fee is generally paid quarterly in arrears no later than the last business day of each calendar quarter.

In addition to our compensation, clients may be responsible for the costs and expenses directly related to portfolio investments or prospective investments, including brokerage commissions, clearing and settlement charges, custody fees, interest on debt balances or borrowings, fees and specific expenses incurred in obtaining, maintaining, or performing administrative services and out-of-pocket costs for, accounting, audit, operational, administration, secretarial and legal expenses. Clients should review their individual Investment Management Agreements (“IMAs”) for details regarding each client’s specific expense arrangement with Alumina.

Either party may terminate the engagement in accordance with the terms of the investment management/consulting agreement. The client is responsible to pay for services rendered until the termination of the agreement. Any unearned fees will be refunded to the client on a prorated basis.

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

Alumina does not charge performance fees.

## **Item 7: Types of Clients**

Alumina primarily provides customized investment management services to large institutional clients such as insurance companies and banking institutions, including sub-advisory services to pooled investment vehicles offered by such institutional clients. Alumina generally has a minimum account size of \$25 million.

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

For our clients receiving investment management services, we seek to add value, control risk and preserve capital, in each case, as we deem appropriate, relative to the targeted crediting rate. This is accomplished through the identification of assets that present attractive risk/return investment opportunities. Opportunities are evaluated through a process based primarily on fundamental credit analysis of the underlying loans within a structured securitization. This process is further reinforced through a regular surveillance process which utilizes base case, as well as, various stress case analyses of the underlying assets.

The ongoing surveillance of portfolio holdings will be conducted in combination with a current view of market conditions and expected investment performance. We intend to acquire investments with a buy and hold to maturity objective and sell investments only to mitigate risk, in a particular sector or individual security, or to manage liquidity and duration.

Based on our review of our consulting client’s Interest Rate Risk Measurement systems we will develop investment strategies taking into consideration multiple factors available. Investment strategies will be proposed based on the regular output from the rate sensitivity models, changing market conditions, the bank’s liquidity position, and changing views of management as to cyclical

trends and/or desire to shift rate sensitivity. Strategies may include assessments on timing of both purchases and sales, views as to future interest rates to the extent they differ from market, and use of interest rate derivatives or futures contracts as hedges to the structural risk of the balance sheet. Strategies are developed with regard to accounting statement implications and impacts to both income statement and capital volatility. Strategies are developed with an overall asset allocation framework with outlooks on prepayment and credit trends, market technicals, absolute yield, OAS levels, convexity and volatility perspectives, and government policy positions.

## **Investment Risks**

There can be no assurance that the investment objectives of the client will be achieved, that any client will receive a return of its contributed capital. The discussion below enumerates certain, but not all, risk factors that apply generally to our strategy:

### Material Risk Relating to Methods of Investment Analysis

We seek to conduct reasonable and appropriate analysis and due diligence of investments based on the facts and circumstances applicable to each investment. The objective of such analysis and due diligence is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, and to identify possible risks associated with that investment. When conducting due diligence and making an assessment regarding an investment, we rely on available resources, including information provided by the target of the investment and, in some circumstances, third-party investigations. As a result, the due diligence process may, at times, be subjective. Accordingly, we cannot be certain that due diligence investigations with respect to any investment opportunity will reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity, including the existence of contingent liabilities.

### Highly Competitive Market for Investment Opportunities

The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that a client will be able to locate, consummate and exit investments that satisfy its rate of return objectives or realize upon their values.

### Achievement of Investment Objectives and Investment Style

There is no assurance that we will be able to achieve the investment objectives and investment style of the client's portfolio.

### Investments of the Portfolio

The investment guidelines permit us to purchase investments in a wide variety of fixed income assets. Some of the anticipated assets may only be available for investment at particular periods. Accordingly, investments in the permitted asset classes may not be available for purchase at a particular time or at any time at all. In addition, even if the investment in an asset class may be

available, we may determine that any available investment may not be appropriate or is not available for purchase at an attractive price. Accordingly, while it is expected that certain types of investments will be purchased, there can be no assurance that these investments will be purchased, and this may have a negative impact on the client's portfolio.

#### Long-term Illiquid Investment

The investment assets of the client's portfolio are intended to be long-term investments. The investment assets may be or may become very illiquid, and consequently they may not be sold at prices that reflect our assessment of their value or the amount paid for such assets. Illiquidity may result from the absence of an established market for the assets as well as legal, contractual or other restrictions on their resale and other factors. Furthermore, the nature of the assets may require a long holding period to be profitable. To the extent that assets are sold prior to maturity, the performance of the client's portfolio may be materially adversely affected.

#### Undervalued Investments

The client's Portfolio may invest in assets we may believe to be undervalued. The identification of opportunities in undervalued investments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While undervalued investments offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the assets may not adequately compensate for the business and financial risks assumed. There are no assurances that the assets purchased will in fact be undervalued. In addition, the client's portfolio may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the client's portfolios' assets may be committed and prevent us from investing the client's portfolio in other opportunities.

#### Valuation

A number of the investments may be illiquid instruments for which there is no recognized established market and, accordingly, no fair market value can be determined. In this circumstance the valuation of such asset will be determined by us in our sole discretion based on our assessment of the respective asset. It may be possible that a substantial portion or all of the assets will be valued by us based on our assessment.

There can be no assurance that our assessment will be correct. In addition, our determination of the value of the asset may not reflect the amount that is received upon the liquidation of the asset, particularly in the event of a sale prior to maturity due to a policy transaction.

#### Limits on Redemptions

The assets of the client's portfolio are expected to be held for a significant period of time. Accordingly, we may limit redemptions from the client's portfolio and require prior written notice of redemptions.

### Nationally Recognized Statistical Ratings

It is likely that a large percentage of the assets in the accounts will be rated by one or more NRSROs. These ratings are subject to change over time and a NRSRO may elect to remove their rating altogether. These actions can have an impact on both pricing and liquidity, both positively and negatively. In the event in which an investment asset is downgraded to below BBB- or its equivalent, the manager may still deem the asset value to be ultimately recoverable and may opt to retain the investment in the security.

### **Item 9: Disciplinary Information**

Alumina and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

Alumina and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

Alumina has adopted a written code of ethics that is applicable to all employees. Among other things, our code requires us and our employees to act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Our restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of our code of ethics is available upon request.

We maintain a watch list of restricted issuers and securities. Securities that are being considered for client accounts may be added to the watch list, as well as securities already held in client accounts. Any proposed employee transaction involving securities on the watch list requires preclearance from the Chief Compliance Officer. The Chief Compliance Officer does not grant preclearance where it would appear that an employee's trading could disadvantage our clients.

### **Item 12: Brokerage Practices**

We are generally responsible for choosing the broker or brokers used for transactions on behalf of our clients. In negotiating commission rates (to the extent commissions are charged) and selecting broker/dealers, we will take into account the financial stability and reputation of the particular broker/dealer, the ability to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected and the brokerage and research services provided by such broker/dealer, among other factors. Since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. In addition, Alumina does not have nor anticipates having any soft dollar arrangements.

It is our policy to execute portfolio transactions for client accounts in the best interests of clients, including to seek to obtain “best execution” of each and every transaction made by us for a client’s account (except where we do not have the authority to select the broker or dealer or to negotiate the price of commission). The term “best execution” means seeking the best price and execution for a security in the marketplace as well as ensuring that, in executing client transactions, clients do not incur unnecessary brokerage costs and charges. We are not obligated to obtain the lowest possible commission cost, but rather, should determine whether the transaction represents the best qualitative execution for clients. We have adopted procedures to help in the implementation of this policy.

#### Best Execution Reviews

On at least an annual basis Alumina’s Chief Compliance Officer and other senior executives evaluate the pricing and services offered by broker-dealers with those offered by other reputable firms. We have sought to make a good-faith determination that broker-dealers provide clients with good services at competitive prices.

### **Item 13: Review of Accounts**

Our Principal and investment professionals review our clients’ accounts on a continuous basis. These reviews are designed to monitor and analyze our clients’ transactions, positions, and investment levels. Our discretionary based investment management clients are provided with daily NAV statements and monthly statements that contain certain risk metrics on the portfolio, market price and yield. Our consulting clients receive statements which provide information regarding interest rate risk, credit risk, as well as information about certain portfolio securities / investments.

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

We do not directly or indirectly compensate any person for client/investor referrals or for providing advisory services to our clients.

### **Item 15: Custody**

All clients’ accounts are held in custody by unaffiliated broker/dealers or banks, in which we do not have the ability to debit advisory fees. For this reason we are not considered to have custody of client assets. Clients should receive account information from custodians pursuant to agreements / arrangements they have in place with their custodians. Clients should carefully review this information, and should compare to any account information provided by us.

### **Item 16: Investment Discretion**

Client accounts to which we provide investment management services can be managed on either a discretionary or nondiscretionary basis, depending on the client and related management agreement. For accounts in which we have investment discretion, we have the authority to determine, without obtaining specific client consent, the amount and price of securities to be bought and sold, the preferred broker-dealers through which they affect trades, and the commission rate charge for trades. Clients sign an investment management agreement granting us discretionary authority to manage their investments in accordance with the terms of the agreement. We do not maintain investment discretion over client accounts who receive consulting and analytical services.



### **Item 17: Voting Client Securities**

For discretionary accounts, Alumina has authority to direct the Custodian to (i) vote in our discretion, (ii) execute proxies, waivers, consents and other instruments, (iii) participate in or consent (or decline to consent) to any modification, work-out, restructuring, bankruptcy proceeding, class action, plan of reorganization, merger, combination, consolidation, liquidation or similar plan or transaction, and (iv) issue such other instructions to the custodian and to direct the custodian as Alumina deems necessary to perform its investment management duties. Alumina does not expect to have many instances where it would be required to direct the custodian on items (i), (ii), (iii), and / or (iv) (above). In the event that action on the above items is required, Alumina's Investment Committee will convene at such time to analyze, vote and take action in the best interest of its client.

### **Item 18: Financial Information**

Alumina has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.