

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**July 14, 2014**

**American Assets Capital Advisers, LLC**

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**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of American Assets Capital Advisers, LLC (“AACA”, “we” or “us”). If you have any questions about the contents of this Brochure, please contact us at (858) 345-1470. 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.**

**AACA is registered as an investment adviser with Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

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

## ITEM 1: COVER PAGE

Please refer to previous page.

## ITEM 2: MATERIAL CHANGES

Form ADV Part 2 is divided into two parts: Part 2A and Part 2B. Part 2A (the “Disclosure Brochure”) provides information about a variety of topics to an Advisor’s business practices and conflicts of interest. Part 2B (the “Brochure Supplement”) provides information about advisory personnel of AACA.

Pursuant to new SEC Rules, AACA will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of AACA’s fiscal year. Additionally, as the firm experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover.

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## **ITEM 4: ADVISORY BUSINESS**

### **A. Description of Firm**

American Assets Capital Advisers, LLC (“AACA” or the “Firm”) is a San Diego, California-based investment management firm, founded in 2013. AACA has filed for registration with the Securities and Exchange Commission (“SEC”) as an investment adviser and is organized under the laws of the State of Delaware as a Limited Liability Company (“LLC”). After AACA’s registration with the SEC as a registered investment advisor becomes effective, AACA will offer discretionary investment advisory services exclusively to qualified investors through separately managed accounts and will also be a sub-advisor to a mutual fund registered under the Investment Company Act of 1940 (“1940 Act”). AACA generally does not require a minimum account size for its separately managed account services. However, we retain the right at any time for any reason to change this without notification. The mutual fund is called the Altegris/AACA Real Estate Long Short Fund, a series of Northern Lights Fund Trust (“Altegris/AACA Fund”) and is currently sub-advised by AACA’s managing member, American Assets Investment Management, LLC, a Delaware limited liability company (“AAIM”).

### **B. Principal Owners**

AACA is owned 50% by AAIM and 50% by Soledad Realty Capital, LLC, a Delaware limited liability company (“Soledad”). Ernest S. Rady Trust is the sole managing member and owner of 100% of the membership interest in AAIM, and Burland B. East III is the president and owner of 100% of the shares in Soledad. Ernest S. Rady is the sole trustee of the Ernest S. Rady Trust. As such, Messrs. Rady and East jointly control the operations and activities of AACA.

### **C. Types of Advisory Services Offered**

AACA will manage separate accounts on a discretionary basis only. The strategy for a separately managed account is generally to seek to generate high risk-adjusted total returns by investing in fundamentally mispriced real estate securities while preserving capital and mitigating risk, although we may from time to time manage accounts with other investment objectives. The client is responsible for informing AACA of any changes to the client’s investment objectives, individual needs and/or restrictions. In addition, AACA does not take any responsibility for the accuracy of the information provided by clients. There is no set required minimum account size for separate accounts, and AACA will open such accounts on a case-by-case basis, in its sole discretion.

Among the separate accounts for which AACA will provides investment advisory services are wrap fee accounts for which AACA will act as a sub-adviser under wrap fee programs sponsored by third party asset managers and for which AACA will receive a portion of the wrap fee pursuant to an agreement between AACA and the respective asset manager or sponsor.

AACA in its management of the Altegris/AACA Fund will seek to generate high risk-adjusted total returns by investing in fundamentally mispriced real estate securities while preserving

capital and mitigating risk. Further information concerning the Altegris/AACA Fund is available in the fund's Prospectus and Statement of Additional Information as noted below.

**D. Advisory Agreements**

Prior to engaging AACA to provide investment management services, a prospective client is required to enter into a written agreement with the Firm, which will describe the fees to be charged and the terms and conditions under which AACA will render its services. AACA will provide a brochure and one or more brochure supplements to each client or prospective client prior to or at the same time a client executes AACA's investment management agreement. AACA will continue to provide services until terminated by AACA or the client in accordance with the provisions outlined within the agreement.

**E. Assets Under Management.**

Currently, AACA has no assets under management as it waits for its registration with the SEC as a registered investment advisor.

**ITEM 5: FEES AND COMPENSATION**

**A. Management and Fees of Separate Accounts and Advisory Accounts.**

For the management of separate accounts, AACA will typically be compensated on a case-by-case basis. The client will be required to enter into a written agreement with AACA setting forth the terms and conditions, including the fees under which AACA shall render its services. Such fees are subject to negotiation under certain circumstances and at the sole discretion of the Firm.

Management fees generally will be billed in arrears and calculated on a quarterly basis based upon the fair market value as calculated by the client's custodian as of the last day of the calendar quarter. Should a client open an account during the quarter, management fees will be prorated for assets held for a partial quarter based on the number of days that the account was open during the quarter. In the event that AACA's services are terminated mid-quarter, the annual fee will be prorated through the date of termination and any earned, unpaid balance will be immediately due and payable by client.

In accordance with the client's investment management agreement, AACA either will bill clients or debit fees directly from client accounts for separately managed account investment management services on a quarterly basis. The client should understand that the investment management fee does not include brokerage commissions, transaction fees, or other related costs and expenses incurred by the client. The client may incur certain charges imposed by third parties such as custodial fees, transfer taxes, wire transfer and electronic fund fees and other fees on brokerage accounts and securities transactions. Neither AACA nor any of its advisory personnel will receive compensation for the sale of securities or other investment products purchased for a client's account.

For its services as sub-adviser to the Altegris/AACA Fund, AACA will receive a monthly fee, equal to 0.65% of the Altegris/AACA Fund's average daily net assets. Additional information regarding the fund's advisory fees and other expenses can be found in the fund's Prospectus and Statement of Additional Information as noted below.

## **ITEM 7: TYPES OF CLIENTS**

AACA will provide two types of investment management services: portfolio management for separately managed accounts and portfolio management of a registered mutual fund. The clients for the separately managed accounts may be institutional clientele, including high net worth individuals, trusts, estates, charitable endowments, corporations, and pension and profit sharing plans.

Separately managed accounts do not have a minimum investment, although AACA has the right to require one. Information concerning the minimum investment requirements of the various share classes of the Altegris/AACA Fund is set forth in the fund's Prospectus and Statement of Additional Information, both of which are available at:

<http://www.altegris.com/en/Funds/Mutual-Funds/Altegris-AACA-Real-Estate-Long-Short-Fund.aspx>

There may be times when certain restrictions are placed by a client, which prevent AACA from accepting or continuing to manage the client's account. AACA reserves the right to not accept and/or terminate management of a client's account if it feels that the client's imposed restrictions would limit or prevent it from meeting or maintaining its overall investment strategy, or for other reasons.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Investments & Strategies for Separate Accounts**

The investment strategy of AACA in regards to separately managed accounts, including the wrap fee accounts sub-advised by AACA, usually will be similar to that of the Altegris/AACA Fund with respect to equity securities (i.e., investing, trading and dealing in publicly traded real estate securities). Additionally, AACA may purchase debt/bond securities for separate accounts. The investment strategy for separately managed accounts may differ from that of the Altegris/AACA Fund in order to comply with various state and federal regulatory issues depending on the nature, and/or the business and governing laws of the specific client that opens the separate account. The investment strategy for separately managed accounts also may differ based on the investment guidelines and objectives of the client.

### **B. Investments & Strategies for Altegris/AACA Fund**

The Altegris/AACA Fund invests primarily, on a long and short basis, in equity securities of real estate and real estate related companies. The fund's equity securities may include common and preferred stock, rights and warrants, equity derivatives and convertible securities. The Altegris/AACA Fund may invest in U.S. and non-U.S. companies which may include companies

and issuers located in emerging markets countries. As the fund's sub-adviser, AACA's investment strategy is to identify opportunities in real estate securities that are trading at less than their intrinsic values by employing a fundamental analysis process through reference to a number of factors including the value and characteristics of underlying real estate ownership, reliability and performance of management teams, valuation of securities issued by the companies, financial analysis, transparency of reporting and liquidity. Additional information regarding the fund's investment policies, strategies and risks is set forth in the fund's Prospectus and Statement of Additional Information which can be obtained as indicated above.

### **C. Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Prior to entering into an Investment Management Agreement with AACA, a client should carefully consider: (1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually three-to-five years, (2) that volatility from investing in the stock market or other securities can occur, and (3) that over time the client's assets may fluctuate and at any time be worth more or less than the amount invested.

- **Market Risk**: The client's account is subject to market risk – the risk that the securities markets will increase or decrease in value. Market risk applies to every security. Security prices may fluctuate widely over short or extended periods in response to market or economic news and conditions. Securities markets also tend to move in cycles, with periods of rising security prices and periods of falling security prices. If there is a general decline in the securities markets, it is possible a client's investment may lose value regardless of the individual results of the companies in which AACA invests.
- **Interest Rate Risk**: Interest rate risk is the risk that a debt security's value will decline due to changes in market interest rates. Even though some interest-bearing securities offer a stable stream of income, their prices will fluctuate with changes in interest rates.
- **Credit Risk**: Credit risk is the risk that the issuer of a debt security will fail to repay principal and interest on the security when due. Credit risk is affected by the issuer's credit status, and is generally higher for non-investment grade securities.
- **Income Risk**: Income risk is the potential for a decline in the account's income due to falling interest rates.
- **Common Stock Risk**: Common stocks are subject to greater fluctuations in market value than other asset classes as a result of such factors as a company's business performance, investor perceptions, stock market trends and general economic conditions. The rights of common stockholders are subordinate to all other claims on a company's assets including debt holders and preferred stockholders; therefore, the client's account could lose money if a company in which it invests becomes financially distressed. The strategy's portfolio tends to be invested in a relatively small number of stocks. As a result, the appreciation or depreciation of any one security held in the account will have a greater impact on the

account's performance than it would if the account were invested in a larger number of securities. Although that strategy has the potential to generate attractive returns over time, it also increases the account's volatility. As a result, when a client elects to exit this strategy, their account may be worth more or less than the amount initially invested.

- Risks Related to Real Estate: Some of the investment strategies offered by the Firm consist entirely of publicly traded real estate related securities. Thus, an investment in those strategies is subject to the inherent risks attendant to the ownership of interests in real estate.
  - Investments in real estate are subject to varying degrees of risk. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions, the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties, physical condition of the properties, financial condition of buyers and sellers of properties, quality of maintenance, insurance and management services, and changes in operating costs. If the companies in whose securities the Firm invests on behalf of a client do not generate sufficient revenues to meet their operating expenses, including debt service and capital expenditures, the client's position in the security could be adversely affected. Certain significant expenditures associated with such companies (such as mortgage payments, real estate taxes, lease obligations and insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in income of such companies. Real estate historically has experienced significant fluctuations and cycles in value and the Firm may buy and/or sell investments on behalf of clients at less than optimal times. Real estate values are also affected by such factors as: government regulations (including those governing usage, improvements, zoning and taxes); interest rate levels; the availability of financing; participation by other investors in the financial markets; potential liability under changing laws; acts of God, including earthquakes, hurricanes and other natural disasters; acts of war; and acts of terrorism (any of which may result in uninsured losses).
  - Stock prices and company valuations of real estate companies may increase or decline sharply depending on whether or not an anticipated event occurs or as a result of changing investor perceptions about a company. Moreover, price changes among securities in the real estate securities market may be affected by developments pertaining only to one or a few companies and the value of a client's investment may fluctuate significantly over relatively short periods of time.
  - The activities of certain real estate companies are also strongly affected by federal, state, and local government activities, regulation, and legislation. The real estate industry is extensively regulated and subject to frequent regulatory change, which can have a significant impact on methods and costs of doing business. This includes rules, regulations and ordinances concerning the protection of health and the environment. Environmental laws may result in

delays, may cause the companies in which the Firm invests on behalf of a client to incur substantial compliance and other costs and may prohibit or severely restrict development in certain environmentally sensitive regions or areas. It is also possible that the owners of properties with significant contamination could be exposed to property damage in personal injury claims by adjoining or nearby landowners or residents, and there can be no assurance that environmental laws relating to real estate will not be amended in the future in ways that could adversely affect a client's investments in other ways.

- The real estate market tends to be highly competitive. The Firm may be competing for suitable investments with other real estate investment vehicles, as well as individuals, financial institutions and other institutional investors, and a client's performance may be dependent upon the availability of, as well as the Firm's ability to identify, consummate, manage and realize, attractive real estate investment opportunities.
- The Firm's real estate related investment strategies invest in securities of Real Estate Investment Trusts ("REITs"), which generally will not be subject to U.S. federal corporate income tax on their net income that is currently distributed to its shareholders. However, qualification as a REIT for federal income tax purposes involves the application of highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations, and the determination of various factual matters and circumstances not entirely within the REIT's control. If any REIT fails to maintain its qualification as a REIT in any taxable year, and certain relief provisions do not apply, the REIT would be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. In such an event, distributions by the REIT to the client would, to the extent of earnings and profits, be taxable to the client as ordinary dividends. Further, unless entitled to relief under specific statutory provisions, such REIT will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.
- As part of its real estate related strategies on behalf of clients, the Firm may acquire securities in companies owning undeveloped real property, which is initially non-income producing property. To the extent clients invest in such assets, they will be subject to the risks normally associated with such assets and development activities, including those relating to the availability, expense and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Firm, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could have an adverse effect on the clients' investments. In addition, market conditions may change during the course of development that make such investments less attractive than at the time they were consummated.

- Derivatives Risk: The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of a counterparty or due to tax or regulatory constraints. Derivatives may create investment leverage in the client's account, which magnifies the account's exposure to the underlying investment. Derivative risks may be more significant when they are used to enhance return or as a substitute for a position or security, rather than solely to hedge the risk of a position or security held by the account. Derivatives for hedging purposes may not reduce risk if they are not sufficiently correlated to the position being hedged. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. Derivative instruments may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. The loss on derivative transactions may substantially exceed the initial investment.
- Option Risk: An option is a derivative that establishes a contract between two parties concerning the buying or selling of an asset at a reference price. The buyer of the option gains the right, but not the obligation, to engage in some specific transaction on the asset, while the seller incurs the obligation to fulfill the transaction if so requested by the buyer. The price of an option derives from the difference between the reference price and the value of the underlying asset plus a premium based on the time remaining until the expiration of the option. A further risk in derivatives such as options is counterparty risk. In an option contract this risk is that the seller won't sell or buy the underlying asset as agreed.
- Selling Securities Short: In selling securities short, the possible gains are limited (the stock can only decline to a price of zero), and the seller can lose more than the original value of the share, with, in theory, no upper limit. For this reason, short selling is usually used as part of a hedge rather than as an investment in its own right. Short positions pose a risk because they lose value as a security's price increases; therefore, the loss on a short sale is theoretically unlimited.

Past performance is no guarantee of future results.

## **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers such as AACA are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the Firm or the integrity of its management. AACA does not have any such legal or disciplinary events, and thus has no information to disclose with respect to this Item.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

AACA will devote such time and attention as AACA deems necessary for the management of the affairs of its separate account clients and the Altegris/AACA Fund. In this regard, Burland East and Creede Murphy will devote substantial time and attention to the affairs of the Firm's separate account clients and the Altegris/AACA Fund. Burland East is on the boards of Excel Trust, Inc. and Lusk Center for Real Estate, and serves on Ernst & Young's Audit Committee Network.

AAIM, an investment adviser registered with the SEC (CRD #131660), owns and holds a 50% membership interest in AACA. Ernest S. Rady Trust is the sole managing member and owner of 100% of the membership interest in AAIM. Ernest S. Rady (CRD #2407139) is the sole trustee of the Ernest S. Rady Trust. Soledad owns and holds a 50% membership interest in AACA. Burland B. East III (CRD #1529809) is the president and owner of 100% of the membership interest in Soledad. As such, Messrs. Rady and East jointly control the operations and activities of AACA.

Ernest S. Rady, AACA's Executive Chairman, is on the boards of directors of American Assets Trust, Inc., the ICW Group and its affiliates, and San Diego Private Bank, the board of trustees of Salk Institute, and the Dean's Advisory Council of the Rady School of Management at the University of California, San Diego.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics Summary**

The Investment Advisers Act of 1940, as amended (the "Advisers Act"), imposes a fiduciary duty on all investment advisers to act in the best interest of its clients. AACA's clients therefore entrust us to use the highest standards of integrity when dealing with their assets and making investments that impact their financial future. Our fiduciary duty compels all employees to act with integrity in all of our dealings.

AACA, its employees or affiliates may from time to time invest client assets in securities that they also buy and sell for their own accounts.

Investment activities are reviewed carefully and continuously to ascertain whether any possible conflicts of interest are presented by such investments. Under policies adopted by and in accordance with the fiduciary duties of AACA, any conflict will be resolved in favor of the client.

AACA has adopted a Code of Ethics for the purpose of instructing its personnel in their ethical obligations and to provide rules for their personal securities transactions. AACA and its personnel owe a duty of loyalty, fairness and good faith towards their clients, and the obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code of Ethics. The Code of Ethics covers a range of topics that may include: general

ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code of Ethics, review and enforcement processes, amendments to Form ADV and supervisory procedures. AACA will provide a copy of the Code of Ethics to any client or prospective client upon request.

AACA obtains information from a wide variety of publicly available resources. AACA and its personnel do not have, nor claim to have, insider or private knowledge with respect to the companies in which AACA invests on behalf of its clients.

## **B. Participation or Interest in Client Transactions**

Because our Code of Ethics would permit associated persons of AACA to invest in the same securities as clients, there is a possibility that the associated person could benefit from market activity by a client in a security held by that person. Employee trading is continually monitored under the Code of Ethics, with an eye to reasonably prevent conflicts of interest between AACA and its clients.

AACA will not effect any principal or agency cross securities transactions for client accounts, nor will it effect internal cross-trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An “agency cross transaction” is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should AACA ever decide to effect principal trading or agency cross-trades, it will comply with the provisions of Rule 206(3) of the Advisers Act, including Rule 206(3)-2 and, with respect to the Altegris/AACA Fund, the applicable provisions of the 1940 Act.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Broker Selection**

In deciding which broker-dealers to use, AACA may consider a wide range of factors. These include, among others, a broker-dealer’s: historical execution performance; commission rate; execution, clearance, settlement and error correction capabilities (both generally and as they relate to the particular type of trade or security); willingness to commit capital; reliability and financial stability; ability to locate securities to borrow for short sales; and provision of research and other services and products (including the nature, quantity and quality of those services). AACA may cause client accounts to pay commissions and other transaction compensation at higher than the lowest available rate.

Please see Item 15(A) for discussion regarding prime brokerage arrangement.

## **B. Transaction and Investment Opportunities**

Neither AACA nor any of its principals or affiliates has any obligation to provide clients with any particular investment opportunity or to refrain from taking advantage of an investment opportunity that could be beneficial to clients. AACA will allocate transactions and opportunities among the various accounts it manages in a manner it believes to be equitable, considering each account's objectives, programs, limitations and capital available for investment, but even accounts with similar objectives will often have different investment portfolios.

## **C. Aggregation**

Conflicts of interest could also arise in connection with transactions for the separately managed accounts and the other investment vehicles in which AACA is involved. In some cases, the various accounts may seek to buy or sell the same security or other investment at the same time. In those cases, AACA may combine purchase and sale orders on one or more account's behalf with orders for those of other account(s) (including personal accounts owned by AACA or its members or employees). When it does so, it will generally allocate the proceeds from those transactions on an average price basis among the various participants. At times, however, AACA may cause the various accounts to effect transactions that differ in substance, timing and amount. This may be due to, among other things, differences in investment objectives or other factors affecting the appropriateness or suitability of particular investment activities to the accounts, limitations on the availability of particular investment or transactional opportunities or differences in withdrawal or redemption rights.

There will be occasions where AACA may execute aggregate portfolio transactions of the same security for numerous accounts, particularly where accounts have similar investment objectives. Although such transactions potentially could be either advantageous or disadvantageous to one or more particular accounts, AACA will effect those transactions only when AACA believes that to do so will be in the best interest of the affected accounts. When such aggregated transactions occur, the objective will be to allocate on an average cost basis or in a manner that is deemed equitable to the accounts involved.

## **D. Soft Dollars Considerations**

AACA's policy is to comply with the provisions of the safe harbor of Section 28(e) when entering into soft dollar arrangements. Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)"), which generally allows investment advisers to use client commissions to pay for certain brokerage and research services under certain circumstances without breaching their fiduciary duties to clients (known as "soft dollars"). Brokerage and research services may include, among other things, effecting securities transactions and performing services incidental thereto (such as clearance, settlement and custody) and providing information regarding the economy, industries, sectors of securities, individual companies, statistical information, taxation, political developments, legal developments, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis and performance analysis. Such research services can be received in the form of written reports, telephone conversations, personal meetings with security analysts and/or individual company

management, and attending conferences. The research services provided by a broker may be proprietary and/or provided by a third party (*i.e.*, originates from a party independent from the broker who provided the execution services).

Subject to Section 28(e), brokerage commissions may be paid in excess of that which another broker might have charged for effecting the same transaction, so long as an adviser makes a good faith determination that the amount of commission charged is reasonable in relation to the value of the brokerage and research services received, viewed in terms of either the specific transactions or an adviser's overall responsibility to the accounts for which it exercised investment discretion.

Research services provided by brokers may be used by advisers in servicing any or all of the adviser's clients, and may be used in connection with clients other than those making the payment of commissions, as permitted by Section 28(e). In addition, the receipt of research services may be deemed to be the receipt of an economic benefit to AACA, and although customary, may be deemed to create a conflict of interest between AACA and its clients.

#### **E. Handling Trade Errors**

Errors created in separately managed accounts must be corrected so as not to harm any client. The goal of error correction is to make the client whole, regardless of the cost to AACA. Soft dollar arrangements or the promise of future trade commissions cannot be used to correct errors when placing a trade for a client's account and AACA cannot correct a trade error made in a client's account by allocating the trade to a different account, unless that account was meant to receive the trade in the first place.

### **ITEM 13: REVIEW OF ACCOUNTS**

Principals of AACA will review account transactions on a daily basis. AACA's separate account clients will receive monthly statements directly from the broker for the account, with information concerning valuations, profits, gains and losses. In some cases, the Firm may also provide similar information in addition to the information provided by the broker. With respect to the wrap fee accounts for which AACA will act as a sub-adviser, the advisers to those accounts provide clients with information concerning valuations, profits, gains and losses. Investors in the Altegris/AACA Fund receive such information in monthly brokerage statements provided by the fund's distributor, as further described in the fund's Prospectus and Statement of Additional Information.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

#### **A. Compensation for Client Referrals**

AACA may, from time to time, enter into agreements with individuals and organizations that refer clients to AACA ("solicitors"). All such agreements will be in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. If a client is introduced to AACA by a solicitor, AACA may pay that solicitor a fee in accordance with the requirements of Rule 206(4)-

3 of the Advisers Act and any corresponding state securities law requirements. While the specific terms of each agreement may differ, generally, the compensation will be based upon AACA's engagement of new clients and the retention of those clients and is calculated using a varying percentage of the fees paid to AACA by such clients. Any such fee shall be paid solely from AACA's fees, and shall not result in any additional charge to the client.

Each prospective client who is referred to AACA under such an arrangement will receive a copy of AACA's Form ADV Part 2A and a separate written disclosure document disclosing the nature of the relationship between the third party solicitor and AACA and the amount of compensation that will be paid by AACA to the third party. The solicitor is required to obtain the client's signature acknowledging receipt of AACA's Form ADV Part 2A and the solicitor's written disclosure statement.

The advisers to the wrap fee accounts for which AACA will act as a sub-adviser, as described above, will refer clients to AACA for sub-management of those accounts, but AACA will not compensate the advisers for those referrals.

## **B. Other Compensation**

While AACA and its associated persons will endeavor at all times to put the interests of the clients first as part of their fiduciary duty, clients should be aware that receipt of additional compensation itself creates a potential conflict of interest. To help ensure that clients are receiving best execution and to address the conflict of interest surrounding this arrangement, AACA will perform periodic reviews of the quality of execution and services provided by third parties.

## **ITEM 15: CUSTODY**

Pursuant to Rule 206(4)-2 of the Advisers Act, AACA may be deemed to have custody of client funds if the Firm will have the authority and ability to debit its fees directly from clients' accounts. To mitigate any potential conflicts of interests, all AACA client account assets will be maintained with an independent qualified custodian.

AACA may only implement its investment management recommendations after the client has arranged for and furnished AACA with all information and authorization regarding its accounts held at the designated qualified custodian.

## **A. Prime Broker and/or Custodian for the Separate Accounts**

AACA intends to make a case-by-case determination as to the prime broker and custodian for separately managed accounts but generally it will be the same as for the Altegris/AACA Fund. Clients should be aware, however, of the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

AACA may only implement its investment management recommendations after the client has arranged for and furnished AACA with all information and authorization regarding its accounts held at the designated qualified custodian. Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to any performance reports that may be provided by AACA. AACA's performance reports for client separately managed accounts may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

The assets of the Altegris/AACA Fund are held with a third party custodian and maintained with such custodian pursuant to the rules, regulations and requirements set forth in the 1940 Act as applicable to the custody of assets of registered investment companies.

## **ITEM 16: INVESTMENT DISCRETION**

### **A. Discretionary Authority**

All separately managed accounts services will be performed by AACA on a discretionary basis. In exercising its discretionary authority, AACA has the ability to determine the type and amount of securities to be transacted and whether a client's purchase or sale should be combined with those of other clients and traded as a "block." Such discretion is to be exercised in a manner consistent with each client's stated investment objectives, risk tolerance, and time horizon. In addition, AACA's authority to trade securities may be limited in certain circumstances by applicable legal and regulatory requirements. Clients will be permitted to impose reasonable limitations on AACA's discretionary authority, including restrictions on investing in certain securities or types of securities. All such limitations, restrictions, and investment guidelines must be provided to AACA in writing.

### **B. Limited Power of Attorney**

By signing AACA's investment management agreement, clients will authorize AACA to exercise full discretionary authority with respect to all transactions involving the client's account. Pursuant to such agreement, AACA will be designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account, which will authorize AACA to give instructions to third parties in furtherance of such authority. With respect to its advisory services in connection with wrap fee accounts, AACA will exercise discretionary authority with respect to securities and related transactions of behalf of such accounts pursuant to its agreements with the respective wrap fee program investment managers or sponsors.

## **ITEM 17: VOTING CLIENT SECURITIES**

AACA is required to describe its proxy voting policies and procedures and, upon the request of any client, to provide such person with (i) the actual policies and procedures and (ii) information about votes cast on behalf of any account in which such person has made an investment. In general, proxies will be voted in consultation with the client's investment professionals who are

responsible for the relevant portfolio investment. The investment professionals, after consultation with senior professionals and counsel, as appropriate, will vote proxies in a manner they believe to be consistent with the best interest of the client's investors. The investment professionals will monitor potential conflicts in proxy voting by consulting with counsel and taking appropriate measures to minimize any such conflicts. Records of proxy material and votes are maintained in our offices. A complete copy of our detailed proxy voting policies and procedures or information on how we voted proxies for is available upon request. AACA votes proxies for the Altegris/AACA Fund and some separately managed accounts.

## **ITEM 18: FINANCIAL INFORMATION**

AACA will not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide a balance sheet. AACA will not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.