

# SouthPeak Investment Management LLC

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This Brochure provides information about the qualifications and business practices of SouthPeak Investment Management LLC ("**SouthPeak**"). If you have any questions about the contents of this Brochure, please contact us at telephone +1 (347) 327-2424 or [luan.atkinson@southpeakim.com](mailto:luan.atkinson@southpeakim.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**") or by any state securities authority.

Registration of an investment adviser does not imply that SouthPeak or any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2: Material Changes**

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As this is SouthPeak's initial filing of Form ADV Part 2A, there are no material changes to include in this section.

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## Item 4: Advisory Business

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### Our Firm

SouthPeak Investment Management LLC (“**SouthPeak**”, the “**Firm**”, “**we**”, or “**our**”) is a limited liability company incorporated in the United States on February 5<sup>th</sup>, 2014 and domiciled in United States. We are an investment adviser providing investment management services to SouthPeak Investment Management Pty Limited (“**SIMPL**”). SIMPL is incorporated and domiciled in Australia and was founded by Mattias Soderberg, Zac Roberts and Luan Atkinson (“**Founders**”). SIMPL is the sponsor of the Real Diversification Fund (“**Fund**”) and also serves institutional investors on a separately managed account basis (“**SMA**”).

As at 28 February 2014, the Firm managed US\$ 307 million in assets under management consisting of: US\$138 million in the Fund and US\$169 million on a separately managed account basis, all of which are managed on a discretionary basis.

### Principal Owners

The Firm has three principal owners which are entities affiliated with the Founders:

- ITF Soderberg Family Trust (39%)
- ITF Roberts Family Trust (39%)
- ITF 26 Broadway Trust (22%)

### Client Types

The Firm serves as a manager to SIMPL, who is the sponsor of the Fund and provides services to Australian institutional investors on a separately managed account basis. The Fund is incorporated in Australia. Currently, the Fund does not have any US investors. The Fund is exempt from registration under the Investment Company Act of 1940.

The Firm may provide services to qualified institutional and professional investors on a separately managed account basis.

### Types of Services Offered

The Firm provides advice to the Fund based on specific investment objectives and strategies. The Fund’s offering documents (as amended and supplemented from time to time, the (“Offering Materials”)) set forth the investment guidelines and/or the types of investments in which the assets of the Fund may be invested.

The Fund is designed to deliver consistent positive returns with strong resilience to market shocks by:

- diversifying based on investment behaviour when markets crash
- using strategies designed to enhance returns per unit of risk and to complement other strategies in the portfolio
- aiming to further limit the downside by using concentration limits based on short-term stress losses

The Fund aims to provide consistent returns above the Reserve Bank of Australia daily cash rate target with annualised volatility of 4-8% (measured daily) and strong resilience to market shocks. It is denominated in Australian dollars and invests in over 30 strategies

across multiple geographies, asset classes and implementation approaches. The Fund generally invest in futures/forwards, swaps and options.

### **Ability to Tailor Services and Impose Restrictions**

The investment objective and strategy for the Fund are described in the Offering Materials. The Firm provides investment management services to the Fund, as a pooled investment vehicle, based on the specific investment objectives and strategies of the Fund itself and not individually tailored to the investors in the Fund (the “**Investors**”). However SIMPL, as the sponsor of the Fund, may from time to time enter into letter agreements or other similar agreements (“**Side Letters**”) providing unit holders (a/k/a the Investors) with additional and/or different rights and benefits.

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

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Pursuant to the Offering Materials and advisory agreements, SIMPL receives an annual management fee of 0.50% of the net asset value of the Fund (“**Management Fee**”) for acting as the trustee and investment manager of the Fund. The Management Fee is calculated and accrued at each valuation time and is paid as soon as practical after the end of a calendar quarter. The Management Fee is increased by the amount of GST payable by SIMPL on the Management Fee.

As set out above, SIMPL may from time to time enter into Side Letters providing for changes in Management and Performance Fees. SIMPL currently has Side Letters with investors relating to fee rebates on their invested assets.

SIMPL deducts the Management Fee from Investors’ accounts by instructing the Funds’ administrator to deduct the fee.

Clients with SMAs will pay generally the same Management Fee as stated above.

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

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SIMPL charges a performance fee per unit equal to 15% of the increase in the unit price for a series within a class of units over the high water mark at the performance fee calculation date, for a performance fee calculation period (“**Performance Fee**”).

The Performance Fee calculation date is the last day of the calendar quarter if no withdrawal is to be processed, or the valuation day before a withdrawal is processed. The Performance Fee is increased by the amount of GST payable by SIMPL on the performance fee.

SIMPL deducts the Performance Fee from Investors’ accounts by instructing the Funds’ administrator to deduct the fee.

Clients with SMAs will pay generally the same Performance Fee as stated above.

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

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The Firm’s clients are the Fund and any SMAs. Investors in the Fund primarily consist of institutional investors and high net worth individuals.

The minimum initial investment for each investor is generally AU\$ 1,000,000 and the minimum subsequent investment is AU\$ 500,000. In certain circumstances, minimum investment amounts may be amended by SIMPL.

SMA clients are required to enter into an Investment Management Agreement (“**IMA**”) with SIMPL or the Firm. In general, the minimum account size for each SMA client is AU\$ 50 million.

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

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### **Investment Strategies and Portfolio Construction**

The Fund invests in a range of strategies, broadly grouped into the following themes (based on market phenomenon): term structure, volatility, momentum, mean reversion, price convergence and tail protection. We invest systematically and typically at a macro level (that is, market index rather than security specific).

The goal of the Fund is to deliver consistent positive returns with strong resilience to market shocks. We strive to achieve this goal by doing three things.

- We believe the key to real diversification is to diversify based on how an investment behaves if markets fall sharply. Do we expect it to lose money (i.e. it's pro-cyclical), make money (i.e. counter-cyclical) or it's uncertain (i.e. non-cyclical). It's important to have a broad mix of investments that behave differently.
- We seek investments that are logical and intuitive, with high returns per unit of risk. We strive to design our strategies to enhance the expected returns per unit of risk and we consider how to make them as complementary as possible (when we design the systematic rules for each investment as well as when we consider how to size them).
- We manage risk by sizing each investment so that it contributes a similar risk to the portfolio. To further limit downside, we use concentration limits based on short-term stress losses. We also systematically adjust exposures based on signals (as expected returns and risk change). The outcome of this is that the portfolio naturally tilts to being more pro-cyclical (risk-on) in positive markets and more counter-cyclical (risk-off) in negative markets.

The Fund may invest in a broad range of instruments to gain exposure to various strategies. These are typically futures, forwards, options, swaps and other derivatives (exchange-traded and over-the-counter). The Fund also holds bank deposits and short-term money market instruments. The Fund may also invest in physical securities such as shares and bonds. The Fund is not permitted to borrow or short-sell physical shares.

We currently invest in over 30 strategies across multiple geographies, asset classes and implementation approaches.

### **Risk of Loss Factors**

Investing in securities involves risk of loss that Investors should be prepared to bear. An investment in the Fund carries a high degree of risk. There can be no assurance that the

investment objective of the Fund will be achieved. The following risks are non-exhaustive and should be carefully evaluated before making an investment in the Fund.

Market risk

Many factors impact global markets, including political instability, economic instability (e.g. recession, inflation), legislative and regulatory changes, fraud, financial market disruptions and industrial disruptions. These factors may adversely affect the value of cash and fixed income securities held by the Fund and the derivatives entered into by the Fund.

Interest Rate risk

The fixed income portfolio and cash portfolio are made up of bank deposits and money market instruments. Hence, their returns will vary with the level of interest rates. Investments with longer terms and fixed coupon payments are more likely to be affected by interest rate changes than shorter-term investments or floating rate securities.

Currency risk

The Fund primarily holds Australian dollar-denominated cash and fixed income investments. It may hold cash and fixed income investments in other major currencies. The Fund's returns are subject to currency risk as the investment strategies and instruments may be denominated in currencies other than Australian dollars. This currency risk on returns is not hedged, though any currency risk on investment notional is hedged. The Fund may hedge currency risk on cash and fixed income instruments.

Leverage risk

The Fund cannot directly borrow or short-sell physical shares. The Fund may be economically leveraged through use of the derivatives in which case a relatively small movement in the market price of the index or asset underlying the derivative may result in a disproportionately large profit or loss. One of the ways the Firm manages risk is to target an annualised volatility of 4-8% (measured daily).

Income from the Fund

Distributions from the Fund will be automatically reinvested. Accordingly, investors should not rely on this fund for regular income. In addition, investors will need to fund any tax payable on the distributions from other sources.

## **Item 9: Disciplinary Information**

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SouthPeak has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction. Likewise, no persons involved in the management of the Firm have been subject to such action.

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

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### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

The Firm currently has an application pending and intends to be registered as a Commodity Pool Operator with the Commodity Futures Trading Commission ("CFTC") and will become a member of the National Futures Association ("NFA").

**Other Material Relationships**

Other than holding investments in the Fund, which is intended for alignment of interest, neither SouthPeak nor any of its management persons have any other relationship or arrangement that are material to or cause a conflict with the Firm's advisory business or to its clients.

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

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**Participation or Interest in Client Transactions**

SouthPeak serves as the investment manager to the Fund. The owners and/or employees of the Firm have made and may make investments in the Funds, therefore having a financial interest in the Fund through an incentive allocation or a direct investment interest in the Fund. As such, SouthPeak could be considered to have recommended to Investors that they buy or sell securities or investments in which the Firm or a related person has some financial interest.

SMA accounts will be traded generally on a *pari passu* basis with the Fund. The trading and investment will be done so as not to disadvantage the Funds over the SMA clients or vice versa. This is disclosed to the SMA clients prior to the execution of an IMA.

**Personal Account Trading**

Written approval is generally required from the Chief Compliance Officer (or their authorised delegate) before personally transacting in any derivatives or securities. Personal transactions in listed equities do not require prior written approval unless SouthPeak's approved investment list contains a strategy that is implemented by trading listed equities.

As a general principle relating to managing perceived or real conflicts of interest, staff must not trade where a SouthPeak portfolio is active at that time (e.g. where orders are incomplete or where desired weightings have not been achieved or where SouthPeak is likely to be interested in taking a position in a particular security or a derivative referencing that security).

**Embargo Register**

The Embargo Register is the list of all entities that SouthPeak either deals in, or has inside information on. Employees, directors or representatives of SouthPeak must not trade in these entities without receiving prior written approval to trade.

It is the responsibility of every employee, director or representative, before they trade in any security, to ensure that the security they intend to trade in has not been placed on the Embargo Register.

It will be considered serious misconduct if an employee trades, without authority, any security that has been placed on the Embargo Register. Such action may lead to disciplinary action and/or summary dismissal.

An employee or director seeking to trade in a company that is placed on the Embargo Register must not deal in those securities without:

- Completing the SouthPeak Securities Trading Form; and
- Obtaining written authority to trade.

An employee or director who wishes to trade in securities on the Embargo Register will only be given approval if there are exceptional circumstances surrounding the requirement to trade.

## **Item 12: Brokerage Practices**

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The Firm maintains a written Trade Allocation Policy that describes how we allocate trades that are made on behalf of Fund and any SMA. Our overriding principle is to act in the best interests of our clients. As such, our investment team takes steps to ensure that no client will be systematically disadvantaged by the aggregation, placement or allocation of trades. We allocate transactions promptly, usually on the trade date. We do not reallocate from one account to another, unless the original allocation was made in error. We will not make any allocations to a personal account of an employee.

### **Prime Brokers**

The Fund does not use a prime broker; it uses futures clearers. Our selection criteria for clearers are set out in our Financial Intermediaries policy which includes a review, qualitative analysis and due diligence on such providers. We generally trade exchange-traded instruments DMA (direct market access). For exchange-traded derivatives our execution and clearing brokers are selected based on a number of factors including competitive pricing, credit quality of institution, size of exchange-traded derivative operations and systems. OTC trades are directed based on best price.

### **Research and Soft Dollar Arrangements**

The Firm or SIMPL may enter into “soft dollar arrangements” under which commissions or other compensation generated by the Fund’s transactions are used to obtain products and services provided to the Fund and/or the Firm and/or SIMPL but which can reasonably be expected to benefit the Fund and which may contribute to an improvement in the Fund’s performance. Currently the Firm and SIMPL uses soft dollar arrangements in respect of its execution management system which is within the safe harbor of Section 28(e) of the Exchange Act.

Should the Firm use any other soft dollar arrangements, it will generally use reasonable best efforts to ensure the use of soft dollars to pay for research products or services will fall within the safe harbor created by Section 28(e) of the Exchange Act.

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

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### **Review of Accounts**

The Fund and SMAs are reviewed on a daily basis. We invest systematically so the purpose of these reviews is to monitor current investment positions against our trading rules, given changes in market levels. These reviews are performed by SouthPeak’s investment professionals.

**Reporting**

The Fund will prepare its annual audited financial statements in accordance with Australian applicable Australian Accounting Standards and Interpretations, which also comply with International Financial Reporting Standards (“IFRS”). Copies of the audited financial statements will be issued to Investors within 120 days after fiscal year end concluding on 30 June. Investors will also receive weekly and monthly unit price and position statements and monthly commentary on Fund performance. Investors in the Fund also receive monthly account statements from the Fund administrator.

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

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Neither the Firm nor any of its related persons compensate any person, who is not a SouthPeak supervised person, for client referrals.

No person who is not a client of the Firm provides an economic benefit to the Firm for providing investment adviser or other advisory services to Manager’s clients.

**Item 15: Custody**

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The Fund has an administrator and custodian who are independent of the Firm. Investors in the Fund receive monthly account statements from the relevant Fund administrator. SouthPeak urges investors in the Fund to carefully review such statements and compare such official records to any reports that the Firm may provide to such investors.

**Item 16: Investment Discretion**

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SouthPeak possesses discretionary portfolio management authority over the Fund with respect to investment allocations as per the Fund’s constitution and offering materials in place.

SouthPeak has the authority to determine: (i) the securities to be purchased and sold for the client account; and (ii) the amount of securities to be purchased or sold for the client account.

**Item 17: Voting Client Securities**

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Currently, the Firm does not invest in securities that involve voting rights. Should the Firm invest in such securities in the future, it will implement an applicable policy for voting.

**Item 18: Financial Information**

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SouthPeak has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.