

**Advantage Capital Management LLC**  
**415 Bedford Road, Suite 102**  
**Bedford, NY 10570**  
**(914) 579-2929**

**Firm Brochure**

**April 28, 2014**

All the material within this Brochure must be reviewed by those who are considering becoming a client of Advantage Capital Management LLC (“Advantage” or “Registrant”). This Brochure provides information about the qualifications and business practices of Advantage Capital Management LLC.

If you have any questions about the contents of this Brochure, please contact the Chief Compliance Officer, Richard Vecchiolla at 212-422-2165 x212 or [rvecchiolla@ac-pholdings.com](mailto:rvecchiolla@ac-pholdings.com).

In accordance with federal and state regulations, this Brochure is on file with the appropriate securities regulatory authorities as required. The information provided within this Brochure is not to be construed as an endorsement or recommendation by state securities authorities in any jurisdiction within the United States, or by the United States Securities and Exchange Commission (the “SEC”).

The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Advantage Capital Management LLC is registered as a registered Investment Adviser with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration of an Investment Adviser does not imply any level of skill or training.

The oral and written communications of an Investment Adviser provide you with information with which you determine whether to hire or retain them as an Investment Adviser. Additional information about Advantage Capital Management LLC also is available on the SEC’s Web Site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please read and understand the entire Brochure as responses to certain Items also may respond to or provide additional or fuller information regarding responses to other Items.

## **Item 2 – Material Changes**

Not applicable.

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**Part 2A, Appendix 1: The “Wrap Brochure”** - Advantage Capital Management LLC does not sponsor a wrap fee program. Therefore, Part 2A, Appendix 1 is not applicable.

#### **Item 4 – Advisory Business**

Advantage Capital Management LLC, a New York limited liability company, was formed in March 2014 to provide management services to insurance companies and institutional accounts. In addition to providing management services directly to its clients, Advantage selects and retains sub-advisors which provide Advantage's clients with exposure to various investment strategies. The primary strategies that Advantage and its sub-advisors utilize or may in the future utilize on behalf of Advantage's investors are identified below (each, a "Strategy"):

1. Direct Asset-Based Investing: including equipment leases and other asset financings;
2. Structured Credit: including Collateralized Loan Obligations ("CLOs") and Collateralized Swap Obligations ("CSOs");
3. Direct Commercial Real Estate Loans: including mortgage and mezzanine loans on and relating to office, retail and industrial properties;
4. Investment Grade Debt: including highly rated corporate bonds and US/Canadian Government Obligations (including governmental unit and instrumentalities thereof); and
5. High Yield Debt: including primarily non-investment grade USD-denominated corporate debt.

Advantage provides its investment management services to an insurance company and intends to provide such services to other insurance companies and institutional clients in the future.

Advantage only manages the assets which are the subject of its management agreement and does not consider the client's other assets and other obligations (subject to "Additional Services" described below). Advantage receives authority to supervise and direct the investment of the assets on a discretionary basis in accordance with the clients' written objectives and limitations as outlined in each individual client's Investment Management Agreement, and may, in the future, supervise and direct the investment of assets on a non-discretionary basis. Clients may impose restrictions or limitations on investing in specific securities, specific types of securities, or specific strategies. Additionally, Advantage may provide investment management services utilizing strategies and asset types outside of the five primary Strategies described herein to the extent consistent with an individual client's Investment Management Agreement.

##### *Direct Asset-Based Investing:*

Advantage, through its sub-advisor(s), makes direct investments in assets and equipment subject to leases or other financing arrangements, as well as investments in equity, debt, or debt-like instruments that are secured by equipment and/or assets, and related revenue streams. This Strategy generally focuses on equipment and assets with the following characteristics; although not all investments meet all of the below criteria as each investment is individually underwritten and takes numerous additional factors into consideration:

- Assets and equipment that are considered business-essential;
- Revenue-producing or cost-saving equipment and assets;
- Assets and equipment with substantial economic life relative to the investment term;

- Assets and equipment with associated revenue streams;
- Assets and equipment with high in-place value; and
- Asset-intensive project financings.

Advantage concentrates on transaction sizes below \$20.0 million, in particular in areas with limited competition so that it may be selective in its investments. Advantage focuses on identifying equipment and other assets that are considered essential use or core to a business or operation in the agricultural, energy, environmental, medical, manufacturing, technology, and transportation industries and may also identify other assets or industries that meet its investment objectives. Advantage employs this strategy globally with a focus on the United States and Western Europe.

#### *Structured Credit:*

Advantage and its sub-advisors invest on behalf of Advantage's clients in corporate credit primarily through securitizations of fixed-income assets, such as CLOs and CSOs (described below). Advantage and its sub-advisors invest primarily in rated debt instruments (by one or more nationally recognized statistical rating organizations ("NRSROs")) privately placed under Rule 144A.

This Strategy focuses on investments in two main varieties of credit investments, in accordance with clients' objectives and limitations:

- Collateralized Loan Obligations (CLOs) – CLOs are a form of securitization where payments from multiple (in most cases) high-yield or middle-market corporate borrowers are pooled together and passed on to different classes of owners in various tranches, most of which are rated by an NRSRO.
- Collateralized Swap Obligations (CSOs) – CSOs are a variation of a CLO that generally use credit default swaps and other derivatives to achieve its investment goals. The value and payment stream of a CSO is derived not from borrower payments on loans, but from premiums paid for credit default swap protection on some defined set of reference securities that unlike CLOs are predominantly highly-rated (investment grade) corporate entities.

#### *Direct Commercial Real Estate Loans:*

The small to mid-tier commercial real estate loan market is both inefficient and fragmented creating quality loan opportunities that can be captured through Advantage's and its sub-advisors' dynamic underwriting and origination processes. Relationships, expertise, and knowledge allow Advantage and its sub-advisors to source, underwrite, and structure loan opportunities with

favorable yields and acceptable risk. Advantage and its sub-advisor(s) focus on making loans secured by well-positioned properties with stable cash flows.

#### *Investment Grade Debt:*

Advantage and its sub-advisors plan to generate attractive risk-adjusted returns for Advantage's clients by investing in a combination of domestic and international fixed income bonds. The portfolio will invest across various fixed income asset classes including Treasury Bonds, Agency MBS, Non-Agency MBS (high grade), Senior Secured Bank Debt and Investment Grade Bonds. The objective is to produce returns that exhibit low correlations to the broad markets through disciplined credit selection and active portfolio management.

#### *High Yield Debt:*

Advantage and its sub-advisors plan to invest on behalf of Advantage's clients in bonds which are rated Ba or lower by Moody's or BB or lower by S&P or are unrated but determined to be of comparable quality. Below investment grade debt securities have higher yields but generally involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic distress, than higher rated debt securities. Fixed-income securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment in kind and auction rate features.

#### Consulting Services

Advantage also intends to provide advice for a consulting fee to insurance companies and other institutional clients both affiliated and non-affiliated, including, without limitation, advice on matters such as overall asset allocation and/or portfolio optimization based on: i) stated investment guidelines and/or ii) risk-based capital guidelines. Advantage also intends to provide consulting services related to development and implementation of firm-wide investment policies and programs, such as derivative use plans.

Advantage also intends to provide flat-fee consulting services ("Flat Fee-based Consulting") to clients including, without limitation, providing advice on matters related to financing arrangements, financial modeling, and documentation.

At any specific point in time, depending on perceived or anticipated market conditions or events, (there being no guarantee that such anticipated market conditions or events will occur), Advantage may maintain cash positions for defensive purposes. All cash positions, including investments in money market funds, shall generally be included as part of assets under management for purposes of calculating Advantage's advisory fee.

Advantage provides a copy of ADV Part 2 to every client and a copy will be provided to any

prospective client upon request.

As of the date of this brochure, Advantage managed assets with discretionary authority in the amount of approximately \$10,000,000.00.

Advantage is majority owned by Advantage Capital Holdings LLC (“ACH”). Kenneth King is the only individual that ultimately controls more than 25% of Advantage Capital Management LLC, through his controlling interest in ACH.

Advantage does not participate in wrap fee programs.

## **Item 5 – Fees and Compensation**

All fees are subject to negotiation. Among other things, certain factors Advantage considers are the size of the account, the type of assets managed and the nature of the services provided. Fees and compensation may be comprised of investment advisory fees, base management fees, performance or incentive fees and consulting fees. The manner in which fees are charged by Advantage are set forth in each Client’s respective written Investment Management Agreement.

Advantage charges a base management fee (the “Base Fee”) for investment advice. Generally, Base Fees range from 0.15% to 1.00% per year on the principal amount of the assets managed by Advantage, paid monthly in arrears. Base Fees are invoiced directly to clients.

In addition to Base Fees, for certain clients that are exempt from the compensation prohibition of section 205(a)(1) of the Investment Advisers Act of 1940, Advantage may charge performance fees (“Incentive Fees”). Incentive Fees accrue on a Strategy-by-Strategy basis when returns on investments expressed on a percentage basis (“Returns”) exceed an agreed upon hurdle rate for such Strategy (the “Hurdle Rate”). Hurdle Rates will be individually negotiated with each client and are expected to range from 4% to 9% per annum, depending on the Strategy. Incentive Fees are generally paid to Advantage within 30 days after the end of each calendar year. Incentive Fees are structured in accordance with Section 205(a) of the Investment Advisers Act of 1940 and the rules and regulations promulgated thereunder. Fees, in general, may vary and in some cases may be negotiable and may be payable more or less frequently depending upon the Client and the arrangement.

Generally, Advantage does not require prepayment of fees unless otherwise permitted under the Investment Management Agreement. If prepayment were provided for, Advantage would rebate a proportionate amount of the prepaid fees to the client in the event of a termination of its management services.

### Expenses Charged to Investors

Advantage’s clients may pay, in addition to Base Fees and Incentive Fees, such other expenses as are agreed between Advantage and the client in the Investment Management Agreement. Such

expenses may include, without limitation, fees, costs and expenses relating to the acquisition and disposition of assets, investment-related expenses, indebtedness expenses, taxes, fees and other governmental charges, auditing and tax preparation expenses, custodial expenses, professional fees, fees and expenses of accountants and counsel, litigation and indemnity costs and other extraordinary expenses.

Although Advantage does not generally use the services of broker-dealers for the purpose of executing investments on behalf of its clients, in the event that it or one of the sub-advisors chooses to use a broker-dealer for limited purposes relating to an investment on behalf of a client, such client will incur brokerage and other transactional costs.

Supervised persons of Registrant may receive consulting and/or similar one-time fees from third parties. Conflicts of interest may arise relating to client investments in third parties who have paid such consulting fees.

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

Advantage's typical incentive performance fees and the way they are determined are described above under Item 5. "*Fees and Compensation.*"

Clients should be aware that performance-based fee arrangements may create an incentive to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Furthermore, as Advantage may also have clients who do not pay performance-based fees, Advantage may have an incentive to favor accounts that do pay such fees because the compensation it receives from these clients is more directly tied to the performance of their accounts.

Advantage addresses such conflicts by ensuring that all clients receive fair and equitable allocations in accordance with their respective objectives, including, without limitation, their investment guidelines, yield and rating targets, maturity profiles and desired subordination levels.

The receipt of performance-based compensation creates a potential conflict of interest between Registrant's interest to generate revenue for itself and the interests of clients. Specifically, performance-based compensation may create an incentive for Registrant to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. Performance-based compensation may also create an incentive to favor higher fee paying clients when allocating investment opportunities.

Advantage's performance-based fees are paid in accordance with the requirements of the Advisers Act. Such fees are fully disclosed and are generally paid only after the client has achieved a

specified return for a given Strategy. Registrant seeks to mitigate this conflict through full disclosure and its allocation policy, described below.

“Side by side” management refers to the simultaneous management of multiple clients which follow similar, complementary or competing investment objectives, policies or strategies. Side by side management gives rise to potential or actual conflicts of interest, including as discussed above the incentive to favor higher fee paying clients or clients in which Registrant or its related persons have a pecuniary interest. Registrant has adopted a trade allocation policy designed to mitigate this conflict by seeking to allocate in a manner deemed fair and equitable over time in order to construct a well-diversified fully invested portfolio, consistent with client guidelines. Pro rata allocation of opportunities cannot be guaranteed and allocation decisions are driven by a number of factors including client-specific investment guidelines, targeted returns, maturity profiles, the overall risk profile of the portfolio, nature and target size of positions, specific capital constraints including available cash, as well as market conditions and performance. In certain circumstances, Registrant may give special consideration to new clients and or a client with a substantial amount of cash to deploy or a need to raise cash. Clients that receive such a priority relative to other clients may have been seeded by Registrant or an affiliate. Accordingly, Registrant’s allocation decisions will affect performance and certain clients may not participate in gains or losses realized by other clients with similar investment objectives. There is no assurance that all client portfolios will hold the same positions or will perform similarly.

## **Item 7 – Types of Clients**

Advantage, on its own and through sub-advisors, provides investment services for institutional third party clients. Registrant’s client base includes an insurance company and is expected to include additional insurance companies and other institutional clients in the near future. Regardless of client type, Advantage may seek a minimum dollar fee or a minimum mandate size in an amount typically equal to \$10,000,000.

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

### ***Methods of Analysis and Investment Strategies***

Advantage's investment process is built on a disciplined philosophy, a team-based investment approach, and a strategic relative value analysis. Through a customized approach, Advantage’s clients benefit from its focus on optimizing performance, managing risk, and meeting client needs.

### ***In General***

Advantage’s target investments focus on three areas of portfolio value: fundamental, relative, and structural.



Fundamental Value. Since any investment, particularly a fixed income instrument, represents a series of cash flows owed to the portfolio, Advantage looks for assurances that those cash flows are sustainable, both in amount and timing.

Relative Value. Relative value is determined through application of Advantage's knowledge of trading histories, inter-market spreads, dealer inventories, comparable investments with similar risk profiles and end-user portfolios to find and execute the best pricing relative to a client's expressed yield and risk preferences.

Structural Value. Structural value encompasses a series of risk mitigants or return enhancements that can make an underlying transaction more or less suitable to a client's portfolio objectives. Structural elements include, but are not limited to, subordination, guarantees, off-take agreements, collateral, cash flow diversions, reserve accounts, lock boxes, trustees, covenants, and limited recourse financing.

Advantage works with its clients to develop investment plans to optimize risk-return across multiple parameters such as risk-based capital, income requirements, yield curve positioning, liquidity requirements, risk tolerance and accounting goals (though Advantage does not provide tax or accounting advice). The investment plans may be solely for Advantage core strategies, or in the case where Advantage is providing consulting services, the investment plans may be for a clients' entire portfolio or a sub-set thereof away from Advantage core strategies.

#### *Direct Asset Based Investments*

Advantage, or its sub-advisors, focuses on investments in business-essential, revenue-producing equipment and other assets with high in-place value and long economic life (relative to the investment term).

Originating an equipment lease or other asset-based investment involves, among other things: identifying a lessee or other end-user; inspecting the equipment or other asset; undertaking a business, credit, and industry review; projecting the residual value of the equipment or other asset; pricing the investment; and documenting the transaction. Advantage or its sub-advisor requires sufficient financial information on the lessee, end-user, guarantor or any other participant or counterparty to enable it to make an informed decision regarding their ability to perform their contractual obligations. Advantage typically analyzes the following information:

- audited financial statements for the last two years, if available;
- unaudited financial statements for the latest completed quarter;
- budget or forecast for the latest fiscal year;

- confirmation that existing customers are current with their payments or proposals clearly demonstrating how arrearages will be made current;
- details of current levels of exposure within existing transactions aggregated with the new proposal; and
- details of existing credit facilities, the remaining availability and any financial covenants affecting the counterparty, lessee, end-user, guarantor, or other parties.

Additional information may be analyzed, when relevant, to assist in the assessment of the potential creditworthiness of a lessee or other counterparty including:

- its organizational structure;
- its management structure and an overview of the experience of the key members of the management team;
- its current business plan;
- its marketing plan and any intelligence on its market share, market penetration and major competitors;
- an analysis of its strengths, weaknesses, opportunities, and threats;
- an overview of its customer base; and
- details of any recent press or internet coverage.

The goal is to build a portfolio of investments comprised of a mix of single investor, leveraged leases, and other asset based financings to provide steady cash flows that can support a regular cash dividend, allow for portfolio compounding, and also generate attractive total returns.

The following strategies are employed to achieve the goal:

- Invest in business-essential, revenue-producing assets which, historically, have had high in-place value and relatively long economic life;
- Target assets with multiple and varied industry applications and with active secondary markets;
- Take ownership of the underlying asset(s) providing collateralization and, in some cases, corresponding tax benefits;
- Focus on asset and well as credit underwriting; and
- Structure transactions with multiple levels of security and exit strategies.

Many of the recommended investments will be structured as full payout or operating equipment leases. In addition, Advantage or its sub-advisors may advise investing by way of participation agreements and residual sharing agreements where clients would acquire an interest in a pool of equipment or other assets, or rights to that equipment or other assets, at a future date. Advantage

or its sub-advisors also may recommend investments as project financings that are secured by, among other things, essential use equipment and/or assets. Finally, Advantage or its sub-advisors may suggest investment structures that they believe will provide clients with the appropriate level of security, collateralization, and flexibility to optimize return on investment while protecting against downside risk. In most cases, the structure will include Registrant's client holding title to or a priority position in the equipment or other asset.

### Structured Credit

Advantage and its sub-advisors invest in structured credit primarily through CLOs and CSOs. Advantage seeks current income as well as capital appreciation through investments of mezzanine tranches of CLOs and CSOs. Advantage leverages its investment team's industry experience and contacts to analyze and source structured credit investments.

Advantage's Structured Credit Strategy focuses on analysis of:

- Rating and spread relative to the client's investment objectives;
- Underlying assets;
- Manager (if any);
- Structural Value/Features; and
- Spread compared to comparable investments.

Advantage utilizes an intersection approach of both quantitative screening and qualitative bottom up analysis. Investments must pass through multiple screens, identifying investments with an attractive spread and yield relative to rating, client objectives, and comparable investments in the market. Advantage assesses the underlying assets and the manager (if any) to ascertain the investments' ability to sustain distributions and its relative liquidity should the investment need to be sold in the future. Advantage likewise incorporates stress scenarios relative to historical performance and default rates.

### Direct Commercial Real Estate Loans

Relationships, expertise, and industry knowledge allow Advantage and its sub-advisors to source, underwrite, and structure small to mid-tier commercial real estate mortgage loans with favorable yields and acceptable risk. The primary components of Advantage or its sub-advisors approach to investing in commercial real estate loans are:

- focus on commercial mortgage loan opportunities in the range of \$1mm to \$20mm with maturities of up to 5 years;
- apply filtering criteria and underwriting analysis to find quality risk-adjusted yields;

- construct a loan portfolio that is diversified by borrower, collateral type, geographic location, and maturity dates; and
- generate attractive risk adjusted returns with downside protection that are uncorrelated to other asset classes.

### Investment Grade Debt

Advantage and one or more of its sub-advisors may invest, on behalf of Advantage's clients, in a wide variety of bonds that are rated or determined to be of investment grade quality. Advantage seeks bond cash flows which are sustainable, both in amount and timing, and analyzes relative value through application of Advantage's knowledge of trading histories, inter-market spreads, dealer inventories, comparable investments with similar risk profiles and end-user portfolios to find and execute the best pricing relative to a clients' expressed yield and risk preferences.

### High Yield Debt

Advantage and one or more of its sub-advisors may also invest, on behalf of Advantage's clients, in non-investment grade bonds such as those rated Ba or lower by Moody's and BB or lower by S&P (or securities comparably rated by other rating agencies or in unrated securities determined to be of comparable quality) which are higher yielding and more speculative than the bonds utilized in the Investment Grade Debt Strategy. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The secondary market for lower grade securities may be less liquid than that of higher rated securities.

### Derivatives

Advantage may periodically buy or sell forwards, futures, options or other derivative instruments as long as they are consistent with the client investment guidelines, and, for insurance company clients, consistent with such clients' filed derivative use plans.

### **Risk of Loss**

All investments involve a degree of risk including, without limitation, loss of investment and illiquidity that clients should be prepared to bear. Clients should consider the following risk factors before entering into an Investment Management Agreement and authorizing discretionary authority.

### In General

Limited Operating History: Registrant was formed in March 2014 and has a limited transaction history. When evaluating your investment, please consider that past performance is not an

indication or a guarantee of future results. Further, Registrant cannot predict whether its intended operations will meet the stated objectives.

Conflicts of Interest: Since Registrant proposes to invest on behalf of multiple clients, there are conflicts associated with allocating investment opportunities.

Credit Risk: The failure of a lessee to make lease payments or risk that the issuer of a security will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the value of the investment to decline. Counterparties with debt securities rated below investment-grade (or unrated) are especially susceptible to this risk. Advantage looks to source investments that can provide various credit and structural enhancements to attempt to mitigate credit exposure to any single company or asset class.

Sector Risk: The value of investments focused in a particular industry or market sector will be highly sensitive to financial, economic, political and other developments affecting that industry or market sector, and conditions that negatively impact that industry or market sector will have a greater impact as compared to an account that does not have its holdings similarly concentrated.

Interest Rate Risk: The value of fixed income securities usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the value of existing instruments, and rising interest rates generally decrease the value of existing instruments. Changes in value usually will not affect the amount of interest income, but will affect the value of the investment. Interest rate risk is generally greater for investments with longer maturities.

Certain fixed income securities pay interest at variable or floating rates. Variable rate securities reset at specified intervals, while floating rate securities reset whenever there is a change in a specified index rate. The market prices of these securities may fluctuate significantly when interest rates change.

Structural Risk: The impairment of the value of collateral or other assets underlying an asset-backed security, such as that resulting from non-payment of loans, may result in a reduction in the value of such security and losses. Early payoffs in the loans underlying such securities may result in receiving less income than originally anticipated.

Foreign Investing Risk: Investment in assets and equipment outside of the United States and investing in instruments of non-U.S. companies involves special risks and considerations not typically associated with investing within the United States. Laws in other countries may not provide the same rights and remedies for asset and equipment financiers and it may be difficult to recover collateral in a foreign market in the event of a default. The values of non-U.S. securities may be more volatile than those of U.S. securities. The values of non-U.S. securities are subject to economic and political developments in their respective countries and regions, or where the securities are traded. Values may also be affected by restrictions on receiving the investment proceeds from a non-U.S. country.

Emerging Market Risk: The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Emerging market countries typically have economic and political systems that are less fully developed, and can be expected to be less stable than those of more developed countries. Investments in emerging markets may be considered speculative.

Advantage will make investments in non-USD investments and where the assets are located outside the US, if in accordance with a client's investment guidelines. Advantage typically focuses on investments in the UK, Western Europe, Australia, and other developed economies, and expects to have limited investment activity in emerging markets. Advantage may periodically buy or sell forwards, futures, options or other instruments to hedge non-USD exposure, as long as consistent with the client investment guidelines.

Liquidity Risk: Substantially all structured credit investments are private placements under Rule 144A or otherwise and have transfer restrictions and are substantially less liquid than many other securities. Asset-based and equipment lease investments will be expected to have a highly limited (if any) secondary market.

#### *Direct Asset-Based Investing Risks*

Default, Ownership: Leases are generally structured as triple net "hell or high water" leases, under which the end user is responsible for all costs associated with using and maintaining the asset including, without limitation, payment of all taxes levied on the assets, insurance and necessary repairs. However, in the event of default, the investor becomes the title owner of the asset and therefore is responsible for the payment of all costs incident to ownership.

Illiquidity, Investing in Business-Essential Assets Subject to Lease: Investing in business-essential assets subject to lease usually requires holding the investments for the lease term. Even after the lease has ended, there can be no assurance that the investment can be liquidated in a timely fashion. Supply and demand may impact the ability to sell the assets in the open market as well as the amount of sale proceeds that may be received.

Lack of Diversification: Although the maximum investment in one asset is generally limited as per each client's investment guidelines, there is no limit on investment by industry or sector. Uncertainties associated with the equipment leasing and financing industries may have an adverse effect on investments.

Leverage: Fluctuations in prevailing interest rates will affect investments because the cost of capital as reflected in interest rates is a significant factor in determining the market rate for leases. Higher interest rates will reduce the yield on leveraged transactions and limit the number of potential transactions due to a corresponding reduction in the value of fixed rate leases and secured financing.

Residual Value: Advantage cannot assure that its value assumptions will be accurate or that the equipment or other assets will not lose value more rapidly than anticipated. Residual values depend on numerous factor that are beyond Registrant's control, including: the desire of the lessee or end-user to keep to the equipment; cost of comparable equipment; condition of the equipment; development of new technologies making the equipment obsolete; and secondary market supply and demand.

### Structured Credit Risks

CLOs and CSOs are generally limited recourse obligations of the CLO or CSO Issuer, as applicable, payable solely from the assets of such CLO Issuer or CSO Issuer. The underlying assets typically consist primarily of leveraged loans. Investments in CLOs and CSOs entail a number of risks, including prepayment risk, credit (i.e., default) risk, liquidity risk, interest rate risk, structural risk and legal risk, which may be different from those of leveraged loans or other types of assets. The performance of CLOs and CSOs will be affected by a variety of factors, including among other things, its priority in the capital structure, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying loans or other assets that are being securitized. Legal risk may arise because CLOs and CSOs are complex instruments that may be based upon difficult to interpret or unclear documentation. Structural risk may arise to the extent that exposure is not limited to the most senior tranches of these securities.

### Direct Commercial Real Estate Loan Risks

Investing in commercial real estate loans is subject to cyclicalities and other uncertainties. There can be no assurance as to these investments' performance in a weaker market or weakened economy. The cyclicalities and leverage associated with real estate related investments have historically resulted in periods of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. The commercial real estate loans originated or acquired on behalf of clients (either directly or through Registrant's sub-advisors) are expected to be secured by or otherwise relate to properties of varying types, geographic locations, owners, tenants and other factors which could make such investments susceptible to particular types of risks relating to such factors, including local economy, real estate market conditions, special hazards and competition. The value of commercial real estate depends significantly on the amount of income it generates which can be affected by many factors including but not limited to tenant mix, success of tenant businesses, property location and condition, competition from comparable types of properties and real estate tax rates and other operating expenses. Additionally, adverse changes in the real estate market increase the probability of loan default, as the equity in the property declines. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged, the mortgaged property is poorly managed or because the mortgaged property has a high vacancy rate or is in need of renovation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring as described below.

In the event of any default under a real estate loan held on behalf of a client, the client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the real estate loan, which could have a material adverse effect on the client's returns. It is possible that Registrant may find it necessary or desirable to foreclose on some, if not many, of its real estate loans. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against a lender, including, without limitation, numerous lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate.

#### Investment Grade Debt Risks

Although generally more creditworthy and less risky than non-investment grade securities, investment grade securities are still subject to market and credit risk. Market risk relates to changes in a security's value as a result of interest rate changes generally. Investment grade securities have varying levels of sensitivity to changes in interest rates and varying degrees of credit quality. In general, bond prices rise when interest rates fall, and fall when interest rates rise. Longer-term bonds and zero coupon bonds are generally more sensitive to interest rate changes. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of investment grade securities like those of other debt securities may be affected by changes in the credit rating or financial condition of an issuer. Investment grade securities are generally considered medium and high-quality securities. Some, however, may possess speculative characteristics, and may be more sensitive to economic changes and to changes in the financial condition of issuers. The market prices of investment grade securities in the lowest investment grade categories may fluctuate more than higher-quality securities and may decline significantly in periods of general or regional economic difficulty. Like non-investment grade securities, such investment grade securities in the lowest investment grade categories may be thinly traded, making them difficult to sell promptly at an acceptable price.

#### High Yield Debt Risks

Advantage and its sub-advisors may invest, on behalf of Advantage's clients, in securities rated below investment grade, such as those rated Ba or lower by Moody's and BB or lower by S&P or securities comparably rated by other rating agencies or in unrated securities determined by Registrant to be of comparable quality. Registrant may purchase securities rated as low as D or unrated securities deemed by Advantage or its sub-advisors, as applicable, to be of comparable quality. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times to sell certain securities or could result in lower prices. The prices of debt securities



generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupon of such securities. Accordingly, lower grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity, because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity. Lower grade securities may be particularly susceptible to economic downturns.

#### **Item 9 – Disciplinary Information**

There are no pending criminal or regulatory proceedings and no civil claims against Advantage or its management. Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Advantage or impact the integrity of its management.

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

Except as disclosed below, Advantage does not have any other financial industry activities or affiliations.

Advantage's related parties include SQN Institutional LLC, SQN Capital Management LLC and Ability Insurance Company.

The following members of management are portfolio managers for SQN Institutional LLC:

Richard Vecchiolla  
Michael Minnich  
Heather Quinn Molloy

The following members of management provide services to SQN Capital Management, LLC:

Richard Vecchiolla  
Michael Minnich  
Heather Quinn Molloy

The following member of management is an officer of Ability Insurance Company:

Kenneth King

Advantage's only clients are institutional accounts or insurance companies.

Advantage may recommend broker dealers or investment advisors to its clients where Advantage receives compensation directly or indirectly.

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

A copy of Advantage's Code of Ethics will be provided to any client upon request.

Advantage's Code of Ethics sets forth standards of conduct expected from advisory personnel, addresses conflicts that arise from personal trading by advisory personnel and requires compliance with Federal securities laws. The Code of Ethics addresses conflicts of interest, personal trading, gifts and the prohibition of using non-public material information for personal gain.

Advisory personnel are required to report all personal securities transactions and receive approval prior to purchasing a security on Advantage's restricted list.

## **Item 12 – Brokerage Practices**

In the absence of specific written instructions in a client's investment management agreement, Advantage has discretion in selecting brokers for client transactions. Advantage seeks best execution at the best price available for each trade. Advantage also takes into consideration several factors, such as:

- the broker's ability to execute the trade;
- the size of the trade;
- characteristics of the security;
- the quality and reliability of brokerage services; and
- the overall direct net economic results to the account.

Advantage may also consider the availability of the broker to stand ready to execute transactions in the future, and the financial strength and stability of the broker. Advantage currently does not participate in soft dollar arrangements. Advantage does not receive client referrals from any broker.

Advantage aggregates orders, when possible in accordance with client guidelines, for the purchase or sale of the same security for all participating accounts. When an order is filled in its entirety, each participating account receives their full allocation at the agreed upon trade execution price. When an order is partially filled, each participating account receives a pro rata allocation, at the agreed upon trade execution price, subject to certain exceptions including de minimis orders. Transaction costs are shared on a pro rata basis for all participating accounts.

SEC Rule 206(3)-2 of the Investment Advisers Act of 1940 allows an investment adviser, under certain circumstances, to engage in inter-account transactions. If one client of an investment adviser is looking to sell a security in its portfolio and another client of the same investment adviser is looking to purchase that security, this rule permits the investment adviser to do a cross

trade between the two accounts. The buy/sale must be at fair market value and with no commissions. Advantage will only engage in these cross trades when advantageous to both clients and with prior approval from the Chief Compliance Officer. Cross transactions will not be conducted through an affiliated broker-dealer.

Advantage may accept direction from clients regarding which brokers to use. Currently, all client directed brokerage is subject to most favorable execution and best execution.

Advantage may direct the purchase of securities on behalf of clients, in secondary market transactions, in public offerings directly from an underwriter, or in privately negotiated transactions with an issuer. Securities purchased in public offerings may be resold shortly after acquisition in the immediate aftermarket to take advantage of price appreciation from the public offering price or for other reasons. Short-term trading of securities acquired in public offerings, or otherwise, may result in higher portfolio turnover.

Many of Advantage's investments, including substantially all lease and direct real estate loan investments are extremely illiquid and will have no available 3rd party pricing information.

Advantage may give advice, or take action, with respect to any one client account which may differ from the advice given, or action taken, with respect to another client account. However, Advantage, to the extent practical and over a period of time, allocates investment opportunities to each account on a fair and equitable basis relative to other similarly-situated client accounts based on client guidelines and cash availability.

### **Item 13 – Review of Accounts**

Clients' accounts are reviewed quarterly or more frequently if there is any unusual activity or if additional reviews are deemed necessary at Advantage's discretion.

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

Registrant does not receive any economic benefit in any material respect from anyone that is not a client. From time to time Registrant may compensate one or more placement agents in connection with the solicitation of clients. Such referral fees may be a percentage of such clients' assets under management, management fees and/or performance based compensation earned by Advantage. Such placement agents could be non-managing members and/or may also seek to do business with, and earn fees or commissions from, Registrant and/or its affiliates. If Registrant were to compensate any person for client referrals, Registrant would seek to comply with the applicable requirements of the Advisers Act.

### **Item 15 – Custody**

Advantage shall comply with Rule 206(4)-2 of the Adviser's Act with regard to the custody of client's assets. Advantage does not custody securities for any of its clients. A client should enlist

a qualified custodian if they require custodial services. In all events Advantage shall abide by specific investment guidelines and, in the case of its insurance company clients, the applicable regulatory guidelines.

#### **Item 16 – Investment Discretion**

Advantage manages accounts on a discretionary basis. Other than the parameters set forth in each client's respective Investment Management Agreements, there are no limitations on Advantage's investment discretion. This means that each client has authorized Advantage in advance to purchase and sell assets in accordance with such client's investment objectives.

#### **Item 17 – Voting Client Securities**

Advantage does vote proxies on behalf of clients who contract this service via their Investment Management Agreement. Advantage utilizes the services of an outside proxy voting firm in order to vote on the client's behalf. Votes are cast in accordance with predetermined guidelines provided by Advantage which are based upon the clients' best interests. Clients may obtain a copy of Registrant's complete proxy voting policies and procedures or how their proxies were voted by contacting us by telephone, email, or in writing.

As an investment adviser to insurance companies, there may be a definitive situation where Advantage's interest would be directly in conflict with that of a client when voting a proxy in which the issuer of the security is an insurance company, which is either a client or potential client of Advantage. In that limited circumstance, it is conceivable that Advantage may be tempted to vote a proxy in line with management's interest rather than shareholders' interest, in order to obtain favorable treatment from company decision makers who may wish to hire or retain Advantage as an investment adviser.

Advantage may act on behalf of its clients in legal proceedings. Under no situation will Advantage act on behalf of its separate account clients in any legal proceedings including class actions or bankruptcies involving securities purchased or held in the client account, other than with respect to bankruptcies involving private placement securities where such services have been retained by a client. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, Registrant will make commercially reasonable efforts to forward such notices in a timely manner.

#### **Item 18 – Financial Information**

Advantage has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients, and Advantage has not sought bankruptcy protection.