

## 1. Cover Page

**CataMetrics Management, LLC**

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**FINRA IARD Number: 168923**

**Form ADV, Part 2A Brochure**

**November 21, 2014**

This brochure provides information about the qualifications and business practices of CataMetrics Management, LLC ("CM"). If Clients or prospective Clients have any questions about the contents of this brochure, please contact CataMetrics Management at 203-680-0330 or [clientservices@catametricsmanagement.com](mailto:clientservices@catametricsmanagement.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

CM is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Within this brochure we may refer to our firm and/or our investment adviser representatives as a "Registered Investment Adviser" or describe the firm or our individual advisers as being "Registered". Please note that such registration is not meant to imply a certain level of skill or training.

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

## 2. Material Changes

This Firm Brochure is CM's disclosure document prepared according to regulatory requirements and rules.

Consistent with applicable regulatory rules, CM will ensure that Clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of CM's fiscal year. Furthermore, CM will provide Clients with other interim disclosures about material changes as necessary. Currently, our Brochure may be requested by contacting Erik Olsen, CM's Chief Compliance Officer, at 203-680-0330 or [erik.olsen@catametricsmanagement.com](mailto:erik.olsen@catametricsmanagement.com).

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## 4. Advisory Business

### **Description of the Firm:**

CM, a Delaware limited liability company, is an SEC registered investment management firm located in Westport, Connecticut, providing investment advisory and portfolio management services, primarily for other investment advisers.

CM is owned by Erik Olsen, Henrik Neuhaus, and Christopher Shea each of whom has a one-third interest. Messrs. Olsen and Neuhaus have Series 65 qualifications and Mr. Olsen is the Chief Compliance Officer of CM. Mr. Shea is a Chartered Financial Analyst.

### **Description of advisory services offered:**

CM is an independent investment management firm providing asset management and advisory services based on the strategies derived from computer models developed by Dr. Henrik Neuhaus and owned by the Firm. These models employ quantitative measures to determine current market risk levels and near term expected changes to security risks. We define “security risks” as changes in various price volatility levels, and the correlations of security prices to an overall portfolio or index. The insights generated by these models inform the Firm’s active portfolio management decisions/recommendations.

**Model Portfolios & Custom Policy Portfolio Licensing:** For model portfolio licensing, CM provides its investment strategies to Registered Investment Advisor (RIA) firms and Financial Advisors (FA) via model portfolios and provides a daily update (daily signal) to the changes in the model portfolio prior to the next day’s market open.

When CM and an RIA or FA have entered into a licensing agreement the RIA or FA is the sponsor of the investment strategy and is responsible for the dissemination to, and use by, that firm’s clients.

In model licensing agreements CM does not have a relationship with the end-client and is not responsible for making investment decisions for the end-investors, or for determining if adherence to the model portfolio recommendations is appropriate for the individual end-investor. In all circumstances the RIA, FA, or other financial intermediary is responsible for understanding and evaluating each investor’s identity, circumstances, financial condition, portfolio holdings, tax situation, regulatory status, financial needs and goals, and for making determinations as to whether a model portfolio provided by CM is appropriate for each potential investor, and reporting and communicating with the investor regarding their investments.

**CM Strategies - Model Portfolios:** CM may provide model portfolios to RIAs, FAs, Advisors, Brokers, Wealth Managers, Family Offices, Trust Companies, Consultants, and Institutional Investors.

**CM Custom Policy Portfolios:** CM may collaborate with Clients to develop proprietary policy portfolios and on-going risk management guidance. A policy portfolio is a strategic investment benchmark designed with Client input to include assets and, in some cases, target weightings of assets determined by the Client.

**Tailored advisory services:** CM is primarily involved in the business of providing model portfolios based on investment strategies designed by CM. However, CM does provide customized policy portfolio strategies, as described above, that meet the specified needs and investment objective(s) of the Firm’s

Clients. Within CM's designed investment strategies, Clients generally do not impose restrictions on investing in certain securities or types of securities. Within policy portfolio strategies, which are designed jointly with the Client, the Client may choose to exclude or restrict certain securities or types of securities. CM does not invest in non-listed private securities or derivatives such as futures or option contracts as part of its overall investment strategy.

**Wrap fee programs:** CM does not currently participate in any wrap fee programs.

#### **Regulatory Assets under Management:**

As of September 21, 2014, 2013, the total assets under advisement for CM are as follows:

Discretionary:	\$ 0
Non-Discretionary:	\$107,000,000
Total:	\$107,000,000

## **5. Fees and Compensation**

CM receives an investment management fee for its advisory services based on the market value of the assets under advisement. Fees are negotiable, but the most typical pricing options for providing CM strategies are as follows:

<u>Asset Level</u>	<u>Fee Level</u>
Asset levels up to \$25,000,000	60 bps (0.60%)
Assets from \$25,000,000 - \$100,000,000	50 bps (0.50%)
Assets from \$100,000,000 - \$500,000,000	40 bps (0.40%)
Assets > \$500,000,000	30 bps (0.30%)

**Custody:** It is CM's policy not to take custody of Clients' assets or securities. CM is not granted access to Clients' accounts and does not have the authority to withdraw, transfer, or otherwise move funds or securities from any Client account.

**Client payment of fees:** Fees are paid quarterly, generally in arrears but may be paid in advance, on any assets under management that utilize CM Model Portfolios or Policy Portfolio risk management. Firms that utilize CM investment strategies may choose different billing methods for applying fees to underlying investors.

**Additional Client fees:** The fees charged by CM are for investment advisory services and do not include other fees paid by Clients, including but not limited to: exchange-traded-fund (ETF) fees, mutual fund fees, any broker-dealer fees and commissions or custodian fees. In the case of an ETF or mutual fund, fees and charges are disclosed in the respective fund's prospectus. Clients are advised to read these materials carefully, specifically the disclosures describing the risks of investing in such funds, before investing. If a mutual fund also imposes sales charges, the Client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A Client using CM strategies may be precluded from using certain mutual funds because they may not be offered by the Client's custodian. Please refer to the Brokerage Practices section (Item 12) for additional information regarding the Firm's brokerage practices.

Neither CM nor any of its supervised employees receive additional compensation for the sale of securities or other investment products to CM Clients.

## 6. Performance-based fees:

CM does not charge performance-based fees and therefore has no economic incentive to manage Clients' portfolios in any way other than what is in the Client's best interests.

## 7. Types of Clients:

CM offers its services to institutional clients, primarily; RIAs FAs, registered investment companies, pensions, endowments, and trusts.

There are currently no minimums for accounts; however CM does not encourage accounts below \$100,000 since the strategies employed become less efficient on amounts less than \$100,000 due to typical trading costs.

## 8. Method of Analysis, Investment Strategies and Risk of Loss:

The CM Strategies – Model Portfolios use a quantitative and algorithmic methodology to assess the historic and current risk of the sectors and asset classes that advised strategies invest in or consider for investment. In making investment decisions, the model methodology focuses exclusively on risk, and the relationships between the risks of different assets/securities, as opposed to valuation. For these purposes, the model considers primarily the historical and current level of price volatility of securities and the correlations of securities with a benchmark. The insights gleaned from the analytical process provide guidance on sector/asset weights.

The CM Custom Policy Portfolios use a quantitative and algorithmic methodology to assess historic and current risk of the sectors and asset classes that advised policy portfolios hold or may invest in. The model methodology focuses exclusively on risk (as measured through both the volatility of price changes as well as the downside movement of price changes) as opposed to valuation in making investment decisions. The methodology primarily considers the historic and current level of volatility and asset-class/security correlations. The insight gleaned from the model's analytical processes provides guidance on how to modify the weights of the Custom Policy Portfolio's considered asset classes/securities.

In both Model Portfolios and Policy Portfolios the methodology may result in a high frequency of trades. Trade frequency is episodic in that periods of very high trading activity may be followed by months or even years of very low trading frequency. High trade frequency occurs primarily during unstable and declining markets though a high frequency of trading may occur during rapidly rising markets. Frequent trading may result in a performance drag on the portfolio due to the cost of trading and the potential impact of taxes.

In particular implementations of the methodology with particular and specific features, trading may be daily in all assets.

All investments in securities include a risk of loss that Clients should be prepared to bear. This includes the risk of capital (a Client's invested amount) and any profits that have been realized as well as profits not yet realized. Stock and bond markets may fluctuate substantially over time, and performance of any investment is not guaranteed.

CM investment strategies may not achieve their objectives, and they are not intended to be a complete investment program.

The principal risks of CM strategies are as follows:

*Market Risk:* Securities in which the various strategies invest may adversely respond to tangible and intangible events and conditions independent of the security's particular underlying circumstances. For example, political, economic, and social conditions may cause a change in the value of the securities. Price changes may be temporary or may last for extended periods and may entail considerable variability in the value of a portfolio.

*Equity Security Risk:* Events or circumstances in a particular industry, or a particular company within an industry, may impact the value of the stocks and ETFs held for a specific strategy and thus the value of Client investments over short or extended periods.

*Interest-Rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate and impact the value of fixed income securities or ETFs held by a strategy. For example, when interest rates rise, yields on existing bonds become less attractive causing their market values to decline.

*Exchange-Traded-Funds (ETFs) Risk:* CM may recommend that Clients invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. CM could purchase an ETF to gain exposure to a portion of the U.S. or foreign markets. Clients, as shareholders of an investment company such as an ETF, will bear their pro-rata portion of the ETF's advisory fee and other expenses, in addition to their own expenses. Investing in ETFs involves risk. For example, depending on the underlying portfolio and its size, ETFs can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral. Additionally, the performance of an ETF which has the investment objective of tracking a given index may not achieve the aimed for tracking.

*Sector Concentration Risk:* Events negatively affecting an industry or market sector in which the strategy invests will cause the overall value of the strategy to decline. To the extent that some investment strategies invest significant portions of their strategy in ETFs representing particular markets or sectors (such as Energy, Healthcare, Real Estate, etc.), or in ETFs representing U.S. Treasuries, the strategy is more vulnerable to conditions that negatively affect such sectors as compared to investment strategies not significantly invested in such sectors.

*Turnover Risk:* Frequent trading will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains, which can negatively impact a Client's overall investment return as compared to investments in strategies with low turnover. Some investment strategies may involve frequent trading and/or turnover and Clients should carefully consider the impact of taxes and brokerage costs on their investment portfolio.

*Quantitative Risk:* The effectiveness of the quantitative model used for the strategy may diminish over time as similar strategies are adopted and as the market becomes efficiently priced.

*Programming and Modeling Risk:* Because CM uses computer models as the basis for its investment management process, there is a risk that the models created may have embedded errors that give incorrect results either through a design flaw or a coding error. This embedded error could then adversely affect a Client's portfolio but would likely not constitute a trade error under CM's policies. Trading errors occur when the recommended trade is not followed correctly. In the case of a modeling or coding error, the recommended trade might be followed, but not have the desired result.

*System Risk:* CM's investment methodology relies on computer programs and systems to assess the markets and investment strategies. Additionally, CM relies on systems and data operated and provided by third party firms. These systems and data may be subject to certain defects, failures or interruptions, including but not limited to, those caused by computer viruses and power and network failures. Any such defects, errors or failures could have a material adverse effect on CM's activities.

*Operational Risk:* CM has developed systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for, loss of data feed sources and communication sources, or other similar disruption in CM's operations, may cause CM to suffer: financial loss; the disruption of its business; liability to Clients or third parties; regulatory intervention; or reputational damage. CM relies heavily on its financial, accounting, and other data-processing systems.

*Market Access Risk:* The strategies designed by CM on which it bases its investment advice seek to source returns through robust risk management. As such, the CM strategies rely on market access to monitor and modify strategy risk exposure through time. In the event markets close unexpectedly or remain unexpectedly closed and CM and other market participants are unable to effect transactions, Clients may suffer material losses.

## 9. Disciplinary Information

CM has no disciplinary actions taken or pending against the Firm or against principals of the Firm that are material to a Client's or a prospective Client's evaluation of the business or the integrity of management.

## 10. Other Financial Industry Activities and Affiliations

CM is not a registered broker-dealer and does not have any pending application to become a broker-dealer.

CM is not, and has no application pending to register as, a futures commission merchant, commodity pool operator, or a commodity trading advisor. Two principals of CM have Series 3 Registrations with FINRA from prior employment.

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

SEC Rule 204A-1 issued under the Investment Advisers Act of 1940 requires all SEC registered investment advisers to adopt a code of ethics. The CM Code of Ethics is based on the principles of following the highest level of ethical standards and fiduciary duties to our clients.



These principles are demonstrated by the motives and actions of our firm's personnel. We expect CM personnel, including all supervised persons, to consistently conduct themselves as follows:

- Create and maintain clients relationships based on openness, integrity, honesty and trust.
- Maintain full compliance with federal securities laws.
- Place client interests ahead of the firm's.
- Engage in personal investing that is in full compliance with the firm's Code of Ethics and Insider Trading policies.
- Avoid taking advantage of one's firm position.

CM adheres to the highest ethical standards and considers this a matter of the greatest personal and professional significance. CM has adopted a Policies and Procedures Manual and this Code of Ethics which governs the conduct of all employees and the managing of conflicts of interest that may be encountered in the conduct of its investment management business. The Compliance Manual and Code of Ethics include provisions relating to the confidentiality of Client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. A copy of this Code of Ethics is available to any client upon request.

CM seeks to place the interests of clients ahead of the firm or any employee. The firm conducts its business to comply with all applicable Federal and state securities Laws. CM's Compliance Manual and Code of Ethics include provisions relating to conflicts of interest in order to assure that clients' interest is placed ahead of those of the firm or any employee.

The Compliance Manual and Code of Ethics is given to each employee at the time of hire and employees sign an acknowledgement that they have read the Compliance Manual and Code of Ethics and will adhere to its requirements for conduct. Employees are required to re-sign this acknowledgement annually. Ongoing training is conducted among all employees.

Under this section CM defines a Reportable Security as any security except the following:

- Transactions or holdings in direct obligations of the U.S. Government;
- Money market instrument (i.e., bankers' acceptances, bank CDs, commercial paper, repurchase agreements, and, certain other high quality/short-term debt instruments;
- Money market fund shares;
- Transactions and holdings in mutual funds (unless the Firm or one of its control affiliates serves as the investment adviser or principal underwriter to the fund); and,
- Transactions in units of a UIT if the UIT is invested solely in shares of mutual funds not affiliated with the Firm.

Under the Code of Ethics Pertaining to Personal Trading contained in CM's Compliance Manual and Code of Ethics, all employees of CM ("Access Persons") must not engage, and must not permit any other person or entity to engage, in any purchase or sale of a Reportable Security in which such Access Person has, or by reason of the transaction will acquire any direct or indirect beneficial ownership, unless;

- The transaction is an exempt transaction as permitted under applicable rules under the Advisers Act (as discussed in Rule 204A-1 under the Advisers Act) or;
- He/she has complied with the provisions set forth below.

Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer to purchase or sell any Reportable Security which has been placed on the "Restricted List" or the "Pre-Clearance List" for which the person, by reason of the trade, has or will have a Beneficial Ownership. CM's "Restricted List" consists of securities that are governed by rule 203.144 of the Securities Act of 1933 and differs from the Pre-Clearance List which lists securities for which either a buy or sell recommendation has been made to Clients.

Finally, Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer before directly or indirectly acquiring Beneficial Ownership in any Security in an initial public offering or in a limited offering.

CM does not participate in or have any financial interest in any client account or transactions.

## 12. Brokerage Practices

CM does not receive compensation from any broker-dealer for recommending it to Clients. CM does not have any discretion in selecting a broker-dealer in respect of trades that it makes for Clients. CM advises potential Clients to make their own individual choice. Any recommendations that CM makes are based on the expectation of low commission costs to the Client combined with quality of execution (timeliness, accuracy, track record, which together constitute "best execution").

CM does not receive research services from any broker-dealer.

Soft dollars – Soft dollars refers to payment made by broker-dealers for research or other services in return for an advisor placing security transactions through that broker-dealer. CM does not engage in any soft dollar agreements.

Cross-transactions – CM will not engage in any cross transactions with its own accounts (i.e., trade any security from or to CM's own account) with other Client accounts or between Clients' accounts (i.e., purchase of a security into one Client account from another Client's account[s]).

Aggregating and Allocating Trades - While performing trade execution services, CM will seek to execute orders on a basis that is fair and equitable. Orders for multiple Clients may be aggregated and allocated among the Clients pro-rata based on the assets under management of each Client. If all orders are not filled at the same price, then they may be allocated on an average price basis or in such other fair and

equitable manner as determined by CM. The combination or coordination of orders may not always be feasible and the timing of trades placed for the Clients may vary for a number of reasons.

### 13. Review of Accounts

CM provides model portfolios for institutional clients. These models will form portfolios that Clients of CM may then offer to individual clients or use for institutional portfolios. By using CM models portfolios are reviewed on a daily basis.

The suitability of a portfolio for a Client of CM is determined in the design of the initial portfolio. The suitability in turn of that portfolio for an individual retail client of the CM Client is the responsibility of the Client. CM will not play a role in the initial determination nor in the periodic review of such individual retail clients.

If an individual Client opens a single contract separately managed account (an “SMA or collectively, “SMAs”) directly with CM (i.e. without a financial advisor or intermediary), CM will conduct an initial suitability review with the Client to determine risk tolerance, liquidity requirements and any other factors necessary to determine the suitability of an investment account strategy. Thereafter, the account will be reviewed annually with the Client to determine whether there has been any change in risk or objectives of the Client.

Client account performance, security positions and size of the positions may be reviewed to ensure that all transactions are in accordance with model instructions of the strategy and that any tracking error to the index performance is within a reasonably acceptable threshold. In addition, accounts are also reviewed post any trading activity to ensure proper trade execution and settlement.

### 14. Client Referrals and Other Compensation

#### **Other Compensation**

CM does not have any compensation agreements where the Firm receives cash or any other economic benefit from someone who is not a Client of CM’s in connection with providing services to CM Clients.

#### **Client Referrals**

CM does not directly or indirectly compensate any person for referrals of Client accounts. If a model manager and/or trade execution relationship is introduced to CM by an unaffiliated or an affiliated solicitor, CM may pay that solicitor a referral fee. Any such referral fee shall be paid solely from CM’s revenue and shall not result in any additional charge to the Client. If a Client is introduced to CM by an unaffiliated solicitor, the solicitor shall provide the Client with a copy of CM’s ADV Part 2 and a summary of the solicitation arrangement, including compensation, as required by applicable federal regulations. Any such solicitor as well shall be appropriately licensed and registered with the SEC as a broker-dealer (or shall be a registered representative of a broker-dealer firm so appropriately licensed and registered).

### 15. Custody

CM does not act as a custodian or accept custody of any Clients’ accounts, funds or securities. CM requires that Clients select their own custodian to hold their funds and securities and to direct CM to make

transactions on the Clients' behalf through that custodian. CM does not provide Client statements or transaction notification and encourages Clients to review all statements provided by their custodian.

## 16. Investment Discretion

In Client accounts where CM provides execution services, CM exercises investment discretion over the selection and the amounts of securities without obtaining prior consent or approval from the Client. The decisions regarding the securities and amounts are, in all cases, subject to specific mathematical model objectives, guidelines and limitations. Clients will execute an investment management agreement which sets forth these model driven objectives, guidelines and limitations.

## 17. Voting Client Securities

CM does not accept responsibility or authority to vote Client securities. Clients will receive proxy statements directly from their custodians. Clients who wish further assistance in this matter may call CM at 203-680-0330.

## 18. Financial Information

CM is not required to file financial statements under applicable rules and regulations and in accordance with the disclosures required in this Form ADV Part 2.

CM has never been the subject of a bankruptcy petition.