

**FORM ADV, PART 2A**

**FIRM BROCHURE**

**PHASECAPITAL LP**

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**This brochure provides information about the qualifications and business practices of PhaseCapital LP. If you have any questions about the contents of this brochure, please contact us at 617-587-5806. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

**Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.**

**THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.**

Item 2.           **Material Changes**

PhaseCapital LP's last filing of its Brochure occurred on August 14, 2014. Since that date, the following material changes have been made to this Brochure:

Item 1 Cover Page - Updated address of PhaseCapital LP

Item 4 Advisory Business – Updated principal owners of PhaseCapital LP

Item 10 Other Financial Industry Activities and Affiliations – Added Raptor Capital Management LP as an affiliate of PhaseCapital LP.

Item 14 Client Referrals and Other Compensation – Updated to disclose client referral arrangements.

Item 3. **Table of Contents**

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**Item 4. Advisory Business**

PhaseCapital LP, a Delaware limited partnership, (“PhaseCapital”) currently provides investment management services on a discretionary basis to one privately offered pooled investment vehicle and one separately managed account (the “Account”). Pursuant to a master-feeder structure, the privately offered pooled investment vehicle is comprised of Phase II Master Fund LP (“Phase II Master Fund”), a Cayman Islands exempted limited partnership, Phase II Fund LP (“Phase II Onshore Feeder”), a Delaware limited partnership, Phase II Fund Ltd. (Phase II Offshore Feeder”), a Cayman Islands exempted company. Phase II Onshore Feeder and Phase II Offshore Feeder invest substantially all of their assets in Phase II Master Fund. Phase II Master Fund, Phase II Onshore Feeder and Phase II Offshore feeder are collectively defined as “PhaseCapital Funds”. The investment objective of the PhaseCapital Funds and the Account (collectively, the “Clients”) is to maximize realized risk adjusted returns through tactical asset allocation across asset classes and investment strategies. For a further description of this investment strategy, please see Item 8 below.

PhaseCapital was established in February 2008 (f/k/a as Denham Quantitative Management LP). The general partner of PhaseCapital is PhaseCapital GP LLC (the “General Partner”). The principal owners of PhaseCapital and the General Partner are SD Porter Holdings LP and Raptor Holdco LLC. The principal owner of SD Porter Holdings LP is Stuart Porter. The principle owner of Raptor Holdco LLC is James Pallotta.

PhaseCapital provides investment advice to the PhaseCapital Funds in a manner that is consistent with the investment objectives and strategies set forth in the confidential offering memorandum of the PhaseCapital Funds. PhaseCapital provides investment advice to the Account in a manner that is consistent with the investment objectives and strategies set forth in the investment management agreement with respect to the Account (the “Agreement”).

The PhaseCapital Funds generally do not impose restrictions on PhaseCapital with respect to investing in certain securities or types of securities.

As of December 31, 2014, PhaseCapital managed approximately \$126 million in net assets on a discretionary basis. PhaseCapital does not manage any assets on a non-discretionary basis.

**Item 5. Fees and Compensation**

PhaseCapital receives a management fee (the “Management Fee”) from Clients, payable monthly in advance, in an amount equal to approximately 0.104% of the balance in each Limited Partner’s capital account at the beginning of each calendar month (1.25% annualized). No refunds of any Management Fees will be made. PhaseCapital, in its sole discretion, may reduce, waive or rebate the Management Fee with respect to the capital account of any limited partner or account holder of the Account including, but not limited to, affiliates and/or employees of PhaseCapital.

In addition to the Management Fee, PhaseCapital Funds (and indirectly the investors therein) will bear all costs and expenses related to its investments and operations, including, without limitation, brokerage commissions and other transaction costs, clearing and settlement charges, custodial fees, margin and interest expense and commitment fees on debit balances or

borrowings, borrowing charges on securities sold short, fees and expenses related to the provision of investment and financial data to PhaseCapital (*e.g.*, market data and electronic data feeds), expenses of professionals providing services to PhaseCapital Funds, including legal, audit, accounting, tax and administration, organizational expenses, costs of any liability insurance obtained on behalf of PhaseCapital Funds, costs of any litigation or investigation involving PhaseCapital Funds' activities, indemnification expenses, regulatory costs, any issue or transfer taxes chargeable in connection with any securities transactions, any entity level taxes, regulatory filing and license fees, costs of reporting and providing information to partners and any extraordinary expenses. Certain of the expenses above are also charged to the account holder of the Account as set forth in the Agreement.

PhaseCapital reserves the right to reimburse PhaseCapital Funds and the Account for a portion of certain non-investment related costs and expenses and/or organizational costs incurred by PhaseCapital Funds and the Account, but shall have no obligation to do so.

PhaseCapital Funds and the Account incur brokerage and other transaction costs as described above. See Item 12 for further information regarding brokerage.

PhaseCapital and its supervised persons do not accept any compensation for the sale of securities or other investment products, including any interests in Clients.

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

Investors in PhaseCapital Funds and the Account are not currently charged a performance allocation.

#### **Item 7. Types of Clients**

PhaseCapital currently provides investment management services to PhaseCapital Funds and the Account. The Account has the same investment strategy as PhaseCapital Funds. The client for whom PhaseCapital manages the Account is a Sovereign Wealth Fund. The current investors in Phase II Onshore Feeder and Phase II Offshore Feeder include, but are not limited to, the Sovereign Wealth Fund and certain partners of PhaseCapital and/or certain of their affiliates.

Investors in PhaseCapital's Clients must each be (i) an "accredited investor" as defined in Regulation D under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and (ii) a "qualified purchaser" as that term is defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "1940 Act"). The required minimum initial investment in each of the Funds is \$2,000,000. Such minimum amount can be waived for any prospective investor by the General Partner.

The minimum account size for separately managed accounts is \$50,000,000. Such minimum amount can be waived for any prospective investor by the General Partner.

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

PhaseCapital Fund's and the Account's investment objective is to maximize realized risk adjusted returns through tactical asset allocation across asset classes and investment strategies. PhaseCapital Funds and the Account will seek to achieve their investment objective by investing primarily in securities and derivatives that represent exposures to broad asset classes, such as index futures, exchange-traded funds and other derivatives that represent exposures to the performance of many securities. PhaseCapital will also consider certain factors relating to such asset classes, which may determine, for example, how broad the asset class will be (e.g., the S&P 500 Index v. the S&P 100 Index). PhaseCapital Fund's and the Account's assets are allocated among such securities and derivatives depending on the type and quality of information identified by the strategies, the liquidity of the market for the security, and other factors. PhaseCapital believes that the approach to achieving risk-adjusted outperformance is the sizing and timing of exposure to particular classes and categories of securities and derivatives, in contrast to security selection within a class or category. As such, the kinds of strategies suitable for consideration include Tactical Trading (strategies that regularly adjust exposure to particular market categories within the ranges selected by the asset allocation strategies by trading liquid instruments representing the category (e.g., S&P 500 index futures) and Asset Allocation (strategies that determine the ranges of allocation of capital across multiple market categories (e.g., asset class, geography, jurisdiction, size, industry and style). PhaseCapital Funds and the Account may also invest directly in securities of individual companies and derivatives thereof.

PhaseCapital implements overall portfolio strategy by managing each of the individual strategies and the aggregate portfolio resulting from their combination. Each strategy maintains its own portfolio and as a strategy is exposed to new data the strategy will respond by determining a set of recommended changes to its portfolio, subject to its portfolio construction rules. Both individual strategies and the aggregate portfolio resulting from the combination of the individual strategies are expected to comply with PhaseCapital's targets for maximum market exposure, maximum expected drawdown, and other risk management factors that PhaseCapital will determine from time to time.

The set of recommended changes to each of the portfolios maintained by each of the Strategies define a set of trades needed to satisfy the recommendations. PhaseCapital will generate a set of trade orders, usually market or limit orders priced at or near current market prices, to satisfy the requirements of the portfolio changes for each of the Strategies. The notional value of all of the trade orders may substantially exceed the expected value of the trades needed to satisfy the recommendations of the Strategies. PhaseCapital Funds and the Account expect to use leverage, which, with the exception of periodic intra-day and overnight fluctuations, is generally not expected to exceed 3:1 of the assets of PhaseCapital Funds and the Account (both long and short), including certain of investments that may themselves economically represent leveraged positions (e.g., certain ETFs, options, futures, and swaps). The cash balances of PhaseCapital Funds and the Account may be significant from time to time and will vary as PhaseCapital may deem advisable. Although not anticipated currently, a portion of PhaseCapital's investment program may in the future include short selling.

Material Risks

PhaseCapital Funds and the Account may be deemed to be a speculative investment and is not intended as a complete investment program. PhaseCapital Funds and the Account are designed only for sophisticated persons who are able to bear the risk of an investment therein. Investing in securities involves risk of loss that investors should be prepared to bear.

***Investment and Trading Risks.*** An investment in PhaseCapital Funds and the Account involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that PhaseCapital Fund's and the Account's investment program will be successful. PhaseCapital will be investing substantially all of PhaseCapital Fund's and the Account's assets in securities, some of which may be particularly sensitive to economic, market, industry, regulatory and other variable conditions. The markets in which PhaseCapital Funds and the Account expect to invest have in recent years experienced significant volatility and losses and may be subject to uncertainty and volatility in the future. No assurance can be given as to when or whether adverse events might occur that could cause immediate and significant losses to PhaseCapital Funds and the Account.

***Proprietary Strategies and Software.*** PhaseCapital has developed proprietary strategies and software that expected to guide and facilitate the day-to-day investment selections for PhaseCapital Funds and the Account. There are numerous risks associated with proprietary trading software generally, the strategies and the risk management software used by PhaseCapital. Certain of these risks are described herein. The strategies require significant real-time and historical data to be effectively analyzed. The ability of PhaseCapital Funds and the Account to achieve their investment objective is, therefore, based in part on the ability of PhaseCapital to continuously receive such data as required by the strategies and the performance of the strategies as implemented. In addition, there is no assurance that the strategies will be effective in all market conditions or that PhaseCapital has considered all factors necessary for the strategies to function properly. There is also no assurance that risk management factors will be accurately or timely determined by PhaseCapital given changing market conditions. Accordingly, there are no assurances that PhaseCapital Funds and the Account will not be exposed to the risk of significant losses, particularly if the underlying patterns of market behavior studied by PhaseCapital and which provide the basis for its statistical models change in ways not anticipated by PhaseCapital.

As the strategies and software are proprietary, an investor will not be able to determine the full details of PhaseCapital Fund's and the Account's investment process or whether the process is being followed. Although PhaseCapital intends to monitor its strategies and seeks to make enhancements and changes as necessary, there is no assurance that PhaseCapital will be able to modify the strategies to adapt to changing market conditions or other factors. PhaseCapital and its affiliates will be required to attract and retain scientists, mathematicians and other professionals in connection with monitoring and enhancing the strategies and the software. The competition for attracting and retaining such professionals may be significant and there is no assurance that PhaseCapital and its affiliates will be able to continue to do so.

The proprietary software used in PhaseCapital Fund's and the Account's investment strategy are owned by PhaseCapital. Such software may be used by PhaseCapital and its affiliates for other funds or accounts they manage and they may also be licensed to third parties.

PhaseCapital expects to expand both current and additional universes (including in foreign markets) for PhaseCapital Funds to invest in. There is no assurance that applicable strategies will be developed or that their implementation will be successful. Furthermore, although PhaseCapital only expects to use such strategies after successful back-testing, investors in PhaseCapital Funds may not receive notice of such implementation of strategies or new universes and will have no right to consent thereto.

PhaseCapital may elect to disregard any trade recommendation generated by the strategies if, in the opinion of the Chief Executive Officer or Chief Investment Officer, such recommendation is based on information that is not representative of then-current risk, liquidity or other market conditions or factors. PhaseCapital also employs a rigorous research process to develop strategies and utilizes human judgment and the consideration of the portfolio characteristics of different strategies and the combinations thereof to guide the choice of which strategies and configurations to incorporate into the portfolio. There are certain risks associated with such intervention and human judgment including that such person has sufficient facts to make an accurate determination to disregard a trade recommendation and select or develop the appropriate strategy and, given the expected rapid nature of trades, that such determination can be made in a timely manner.

***Trade Execution and Costs; Frequency of Trading.*** Trade recommendations generated by the strategies will be made at intervals ranging from thirty minutes or less to one trading day or more and the particular strategy will generally determine the optimal size, type and price of trades. PhaseCapital expects that a significant portion, if not all, of its trades will be executed through electronic trading systems provided by brokerage firms and third parties.

Trades placed by electronic means are governed by the terms of the relevant electronic brokerage trading agreements and by exchange rules, if any. Risks associated with electronic trading include system failures, security breaches and inconsistent procedures and requirements among the trading systems. If the assets of PhaseCapital Funds and the Account become significant and/or PhaseCapital Funds and the Account trade in securities with smaller capitalizations, PhaseCapital Funds and the Account may experience difficulties in executing trades at reasonable prices or in a manner consistent with the trade recommendations, as PhaseCapital Fund's and the Account's trades in a security could adversely affect its price and/or availability.

***Exchange Traded Funds.*** PhaseCapital Funds and the Account will invest in and may sell short shares of exchange traded funds ("ETFs") and other similar instruments. These transactions will be used to gain exposure to the general market or industry sectors and the performance of many securities. The use of ETFs will be an integral part of the Strategies. ETFs and other similar instruments involve risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices, or that the prices of stocks within a particular sector, may increase or decrease, thereby affecting the value of the shares of the ETF or other instruments.



***Derivative Investments.*** PhaseCapital Funds and the Account will also invest in derivatives, such as index futures. Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities, and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may expose PhaseCapital Funds and the Account to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent PhaseCapital Funds and the Account from promptly liquidating unfavorable positions and subject PhaseCapital Funds and the Account to substantial losses.

***Use of Leverage.*** PhaseCapital expects to leverage PhaseCapital Fund’s and the Account’s portfolios through margin and other debt in order to increase the amount of capital available for investments. Although leverage increases returns to the Limited Partners if PhaseCapital Funds earn a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns to the Limited Partners and account holders if PhaseCapital Funds and the Account fail to earn as much on such incremental investments as they pay for such funds. In the event that PhaseCapital Funds and the Account leverage their portfolios, fluctuations in the market value of PhaseCapital Fund’s and the Account’s portfolios will have a significant effect in relation to PhaseCapital Fund’s and the Account’s capital and the risk of loss and the possibility of gain will be increased. In addition, when PhaseCapital Funds and the Account utilize leverage, the level of interest rates generally, and the rates at which PhaseCapital Funds and the Account can borrow in particular, will be an expense of PhaseCapital Funds and the Account and therefore affect the results of PhaseCapital Funds and the Account. Leverage increases the risk of substantial losses (including the risk of a total loss of capital) and leverage can significantly magnify the volatility of PhaseCapital Fund’s and the Account’s portfolios. This is particularly the case for PhaseCapital Funds and the Account given the leverage it may use (as described below).

PhaseCapital Funds and the Account may use short-term margin borrowing in purchasing securities positions. Such borrowing, if made, may result in certain additional risks to PhaseCapital Funds and the Account. For example, should the securities pledged to brokers to secure PhaseCapital Fund's and the Account's margin accounts decline in value, PhaseCapital Funds and the Account could be subject to a "margin call," pursuant to which PhaseCapital Funds and the Account would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in value of PhaseCapital Fund's and the Account's assets, PhaseCapital Funds and the Account may not be able to liquidate assets quickly enough to pay off its margin debt.

With the exception of periodic intra-day and overnight fluctuations, the assets of PhaseCapital Funds and the Account (both long and short) are generally not expected to be levered in excess of 3:1, including certain of PhaseCapital Fund's and the Account's investments that may themselves economically represent leveraged positions (*e.g.*, ETFs, options and swaps). The amount of leverage will be determined by PhaseCapital in its discretion, considering the nature of the investments, the terms of leverage that may be offered by sellers of investments and other factors it deems relevant. There is no assurance that leverage will be available to PhaseCapital Funds and the Account on acceptable terms, if at all.

***Short Sales.*** Although not currently anticipated, a portion of the investment program for PhaseCapital Funds may in the future include short selling. Short sales are sales of securities PhaseCapital Funds borrow but do not actually own, usually made with the anticipation that the prices of the securities will decrease and PhaseCapital Funds will be able to make a profit by purchasing the securities at a later date at the lower prices. PhaseCapital Funds will incur a potentially unlimited loss on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a "long" position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to market events in recent years, including the temporary imposition of restrictions on short selling certain securities and current reporting requirements. PhaseCapital Fund's ability to execute a short selling strategy may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to such adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior trading activities of PhaseCapital Funds. Additionally, the SEC, its foreign counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may from time-to-time impose restrictions that adversely affect PhaseCapital Fund's ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, PhaseCapital Funds may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. PhaseCapital Funds may also incur additional costs in connection with short sale transactions, including in the event that it is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and PhaseCapital Funds are subject to strict delivery requirements. The inability of PhaseCapital Funds to deliver securities within the required time frame may subject PhaseCapital Funds to mandatory close out by the executing broker-dealer. A mandatory close out may subject PhaseCapital Funds to unintended costs and losses. Certain action or inaction by third-parties, such as executing broker-dealers or clearing broker-dealers, may materially impact PhaseCapital Fund's ability to effect short sale transactions. Such action or inaction may include a failure to deliver securities in a timely manner in connection with a short sale affected by a third-party unrelated to PhaseCapital Funds.

***Non-U.S. Securities.*** PhaseCapital may permit PhaseCapital Funds and the Account to invest in securities of non-U.S. issuers, including companies headquartered outside of the United States. PhaseCapital Fund's and the Account's investments in securities and instruments in foreign markets involve substantial risks often not typically associated with investing in U.S. securities. Investments in foreign securities may be adversely affected by changes in currency rates or exchange control regulations, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of PhaseCapital Fund's and the Account's assets denominated in that currency and thereby will have an impact upon PhaseCapital Fund's and the Account's total return on such assets. PhaseCapital Funds and the Account may utilize options and forward contracts to hedge against currency fluctuations but there can be no assurance that such hedging transactions will be effective.

Investments in foreign securities will also be subject to risks relating to political and economic developments abroad, including the possibility of expropriations or confiscatory taxation, limitations on the use or transfer of PhaseCapital Fund's and the Account's assets and the effects of foreign social, economic or political instability. Foreign companies are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about such companies. Moreover, foreign companies are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Furthermore, foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their American counterparts. Brokerage commissions, dealer concessions and other transaction costs may be higher on foreign markets than in the U.S. In addition, differences in clearance and

settlement procedures on foreign markets may occasion delays in settlements of PhaseCapital Fund's and the Account's trades affected in such markets.

Repatriation of investment income, capital and the proceeds of sales by foreign investors may require governmental registration and/or approval. PhaseCapital Funds could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by the government of an emerging country.

Taxation of dividends, interest and capital gains received by non-residents varies among foreign countries and, in some cases, is comparatively high. In addition, some countries have tax laws and procedures that may permit retroactive taxation so that PhaseCapital Funds and the Account could in the future become subject to local tax liability that it had not reasonably anticipated in conducting its investment activities or valuing its assets.

***Hedging Transactions.*** Although PhaseCapital Funds and the Account may engage in certain hedging activities to reduce their exposure to broad market movements, PhaseCapital does not expect to actively hedge PhaseCapital Fund's and the Account's portfolios, including seeking to hedge exposure to particular securities in the portfolios. Accordingly, PhaseCapital Fund's and the Account's portfolios may not be adequately protected in all market conditions. Furthermore, there is no assurance that any hedging transactions generated by PhaseCapital Funds and the Account will correctly assess the exposure and reduce the associated risks. Since the characteristics of many securities change as markets change or time passes, the success of PhaseCapital Fund's and the Account's hedging strategy, if any, will also be subject to PhaseCapital's ability to analyze, adjust, and execute hedges in an efficient and timely manner. While PhaseCapital Funds and the Account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for PhaseCapital Funds and the Account than if it had not engaged in any such hedging transactions.

***Risks of Investments in Options.*** Investing in options can provide greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (*i.e.*, sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter options that PhaseCapital Funds may use in its investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for options is relatively illiquid, particularly for relatively small transactions.

***Forward Trading.*** PhaseCapital Funds may enter into forward contracts with counterparties. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and

are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies and commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by PhaseCapital Funds due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which PhaseCapital would otherwise recommend, to the possible detriment of PhaseCapital Funds. Market illiquidity or disruption could result in major losses to PhaseCapital Funds.

***Illiquid Securities; Designated Investments.*** Although the General Partner does not currently anticipate that PhaseCapital Funds will purchase assets that are illiquid, restricted or difficult to value, in certain circumstances, general economic or market conditions may adversely affect the liquidity of, or ability to value, certain investments held by PhaseCapital Funds. In such event, the General Partner may designate such securities as “Designated Investments”, and all Limited Partners at the date of such designation will participate on a pro rata basis in such Designated Investments. Such Designated Investments may have to be held for a substantial period of time before they can be liquidated, if at all. Market prices for such Designated Investments are often volatile and may not be ascertainable. The resale of restricted and illiquid securities often may have higher brokerage charges. Designated Investments may represent capital not available for withdrawal by Limited Partners. Such investments may be difficult to value.

***Counterparty Risk.*** Some of the markets in which PhaseCapital Funds may affect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange based” markets. This exposes PhaseCapital Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing PhaseCapital Funds to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where PhaseCapital Funds have concentrated their transactions with a single or small group of counterparties. PhaseCapital Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty.

***Loans of Portfolio Securities.*** PhaseCapital Funds and the Account may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of PhaseCapital Fund’s and the Account’s assets. Pursuant to the terms of the Agreement, the Account shall not engage in securities lending or securities repurchase agreements, or purchase securities or make other investments of a value in excess of cash available in the Account. By doing so, PhaseCapital Funds and the Account attempt to increase income through the receipt of interest on the loan. In the event of a default or

the bankruptcy of the other party to a securities loan, PhaseCapital Funds and the Account could experience delays in recovering the securities it lent and there is no assurance that the securities will be recovered. To the extent that the value of the securities PhaseCapital Funds and the Account lent has increased, PhaseCapital Funds and the Account could experience a loss if such securities are not recovered.

***American Depositary Receipts and Global Depositary Receipts.*** American Depositary Receipts (“ADRs”) are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by foreign issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts (“GDRs”) are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a foreign company’s publicly traded securities that are traded on foreign stock exchanges or foreign over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

***Money Market Instruments.*** PhaseCapital may invest, for defensive purposes or otherwise, all or a portion of PhaseCapital Fund’s and the Account’s assets in high quality fixed-income securities, money-market instruments, and foreign money-market mutual funds, or hold cash or cash equivalents in such amounts as PhaseCapital deems appropriate under the circumstances. Money market instruments are high quality, short-term fixed-income obligations, which generally have remaining maturities of one year or less, and may include U.S. Government securities, commercial paper, certificates of deposit and bankers’ acceptances issued by domestic branches of United States banks that are members of the Federal Deposit Insurance Corporation, and repurchase agreements. However, there can be no assurances that such investments will not be subject to significant risks.

***Investments in Fixed-Income Securities.*** PhaseCapital Funds and the Account may invest a portion of its capital in bonds or other fixed income securities, including, without limitation, bonds, notes and debentures issued by corporations, debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, commercial paper, and “higher yielding” (and, therefore, higher risk) debt securities of the former categories. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer’s inability to meet principal and

interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). A major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

***Purchasing Securities of Initial Public Offerings.*** From time to time PhaseCapital Funds and the Account may purchase securities that are part of initial public offerings. The prices of these securities may be very volatile. The issuers of these securities may be undercapitalized, have a limited operating history, and lack revenues or operating income without any prospects of achieving them in the near future. Some of these issuers may only make available a limited number of shares for trading and therefore it may be difficult for PhaseCapital Funds and the Account to trade these securities without unfavorably impacting their prices. In addition, investors may lack extensive knowledge of the issuers of these securities.

***Lack of Diversification.*** PhaseCapital Fund's and the Account's portfolios may not be adequately diversified in all market conditions, including with respect to geography, asset class and sector concentration. Any concentration of risk may expose PhaseCapital Funds and the Account to losses disproportionate to those incurred by the market in general if the areas in which PhaseCapital Fund's and the Account's investments are concentrated are disproportionately adversely affected by price movements. Although generally Strategies seek exposure to broad investment categories and factors rather than to idiosyncratic performance of individual companies, at any given time the portfolio may not exhibit a degree of diversification suitable for all market conditions. Lack of adequate diversification may result from disproportionate exposure to a particular asset class or category, or to idiosyncratic exposures resulting from transitional periods during trading or artifacts of the specific means employed by the various Strategies to achieve exposure to investment categories or factors. Although portfolios will be monitored for undesired concentration, the continued absence of such concentration cannot be guaranteed.

***General Economic and Market Conditions.*** The success of PhaseCapital Fund's and the Account's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of Phase Capital Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect, among other things, the level and volatility of securities' prices, the liquidity of PhaseCapital Fund's and the Account's investments and the availability of certain securities and investments. Volatility or illiquidity could impair PhaseCapital Fund's and the Account's profitability or result in losses. PhaseCapital Funds and the Account may maintain substantial trading positions that can be materially adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

In recent years, global markets have experienced unprecedented volatility and illiquidity and may experience uncertainty and volatility in the future. As a result, there can be no assurance that PhaseCapital Funds and the Accounts will not be materially adversely affected by shocks to the markets in which it invests. Such conditions have in recent years also led to extensive governmental interventions. Such interventions have in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition—as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action—these interventions have typically been unclear in scope and application and have led to ongoing rulemaking, resulting in confusion and uncertainty. It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets and/or the effect of such restrictions on PhaseCapital's strategies.

**Broker Risks.** PhaseCapital Fund’s and the Account’s assets may be held in one or more accounts maintained for PhaseCapital Funds and the Account by its prime brokers or at other brokers or custodian banks, which may be located in various jurisdictions, including emerging market jurisdictions. The prime brokers, other brokers (including those acting as sub-custodians) and custodian banks are subject to various laws and regulations in the relevant jurisdictions that are designed to protect their customers in the event of their insolvency. Accordingly, the practical effect of the laws protecting customers in the event of insolvency and their application to PhaseCapital Fund’s and the Account’s assets may be subject to substantial variations, limitations and uncertainties. For instance, in certain jurisdictions brokers could have title to PhaseCapital Fund’s and the Account’s assets or not segregate customer assets. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a prime broker, another broker or a clearing corporation, it is impossible further to generalize about the effect of the insolvency of any of them on PhaseCapital Funds and the Accounts and their assets. The insolvency of any of the prime brokers, local brokers, custodian banks or clearing corporations may result in the loss of all or a substantial portion of PhaseCapital Fund’s and the Account’s assets or in a significant delay in PhaseCapital Funds and the Account having access to those assets. In addition, PhaseCapital Funds will enter into various prime broker and trading agreements with brokers and other counterparties, the terms of which may include a variety of potentially adverse provisions, which may include default and indemnification.

**Item 9. Disciplinary Information**

There are no legal or disciplinary events to report that are material to a Client’s or prospective Client’s evaluation of our advisory business or the integrity of our management.

**Item 10. Other Financial Industry Activities and Affiliations**

Phase GP LLC, an affiliate of PhaseCapital, serves as general partner to Phase II Master Fund and Phase II Onshore Feeder. PhaseCapital also is affiliated with three other entities that operate within the financial industry:



- Denham Capital Management L.P. (“Denham”) is an investment adviser registered with the SEC and based in Boston. PhaseCapital is under common control with Denham and PhaseCapital utilizes the services of certain administrative personnel of Denham. Denham and PhaseCapital share office space.
- Potamus Trading, LLC (“Potamus”) is a registered broker dealer and based in Boston. PhaseCapital is under common control with Potamus. PhaseCapital does not execute any trade orders through Potamus and has no plans to do so in the future.
- Raptor Capital Management LP (“RCM”) is an investment adviser registered with the SEC and based in Boston. PhaseCapital is under common control with RCM. RCM is an affiliate of Raptor Holdco LLC.

PhaseCapital, the General Partner and their affiliates, and their respective members, partners, principals, managers, affiliates and employees (collectively, the “Management Affiliates”) may engage in other activities, including providing investment management and advisory services to other accounts, and shall not be required to refrain from any activity, to disgorge profits from any such activity or to devote all or any particular amount of time or effort of any of their officers, directors or employees to PhaseCapital Funds and their affairs. The Management Affiliates are not restricted from forming managed accounts or other investment partnerships or funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with PhaseCapital Funds and the Account and/or may involve substantial time and resources of one or more of the Management Affiliates. These activities could be viewed as creating a conflict of interest in that the time and effort of the Management Affiliates will not be devoted exclusively to the business of PhaseCapital Funds, but will be allocated between the business of PhaseCapital Funds and other business activities of the Management Affiliates.

PhaseCapital and any of the Management Affiliates may give advice or take action with respect to any of the other accounts (including those that have investment objectives and/or investment strategies similar to PhaseCapital Fund’s), which may be the same as or differ from the advice given or the timing or nature of any action taken with respect to investments of PhaseCapital Funds. Allocation of investment opportunities among any such accounts or funds will be made on a basis that PhaseCapital determines in good faith to be fair and reasonable taking into account considerations that it deems relevant, such as the investment objectives and investment portfolio of PhaseCapital Funds and such other accounts.

The Management Affiliates may trade in securities for their own accounts, subject to restrictions and reporting requirements as may be required by law or otherwise determined from time to time by the General Partner or PhaseCapital, as the case may be. PhaseCapital Funds may engage in certain transactions with its affiliates provided the terms thereof are commercially reasonable, as determined by the General Partner.

The General Partner has responsibility for valuing PhaseCapital Fund’s securities. A conflict may arise with respect to this responsibility given the Incentive Allocation to be earned by the General Partner. Such compensation arrangement may create an incentive for PhaseCapital to

make investments that are riskier or more speculative than would be the case if such were not in effect.

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

PhaseCapital has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act. Copies of the Code of Ethics will be provided to any client or prospective client by PhaseCapital, upon request. All officers and employees of PhaseCapital are required to follow the Code of Ethics. The Code of Ethics has been adopted based on the general principle that PhaseCapital aims to conduct its business according to the highest ethical standards. Persons subject to the Code of Ethics are subject to, among other things, various restrictions relating to their acquisition of securities. These restrictions include pre-clearance by PhaseCapital's Chief Compliance Officer (the "CCO") of certain personal securities transactions by officers and employees of PhaseCapital in securities (other than certain excluded securities and transactions). The Code of Ethics also includes policies and procedures designed to prevent our officers and employees and PhaseCapital's Clients from trading on material non-public information.

PhaseCapital and its personnel may invest in PhaseCapital Funds, subject to the investor eligibility requirements applicable to the Funds. PhaseCapital and its personnel may also invest in securities or other assets in which PhaseCapital Funds may invest, subject to applicable law and the Code of Ethics (including the pre-clearance requirements therein).

**Item 12. Brokerage Practices**

PhaseCapital is responsible for selecting broker-dealers to execute trades and negotiating any commissions paid on such transactions with respect to PhaseCapital Funds. PhaseCapital's primary consideration in placing transactions with particular broker-dealers is to obtain best execution. Given PhaseCapital Fund's active trading strategy, other important considerations in placing transactions with particular broker-dealers include speed and certainty of communication and trade execution and commissions that are reasonable in relation to the brokerage and research services provided. PhaseCapital will consider other relevant criteria, which may include, but is not limited to: the size and type of the transaction; the nature and character of the markets for the security to be purchased or sold, including the degree of specialization of the broker in such market or securities; the availability of liquidity in the security, including the liquidity and depth afforded by a market center or market-maker; the reliability of a market center or broker; the broker's overall trading relationship with PhaseCapital; the potential for avoiding market impact; the execution services rendered on a continuing basis; the execution efficiency, settlement capability, and financial condition of the firm.

PhaseCapital may execute portfolio transactions with brokers that provide certain products and services that assist it in fulfilling its investment management responsibilities; provided however, that it is expected that such products and services will likely be limited to market data, co-location and information technology services. Although PhaseCapital does not anticipate that it will generate a significant amount of "soft dollars", it is anticipated that any use of commissions or "soft dollars" to pay for research products or services will fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Under Section 28(e),

research, such as market data, obtained with soft dollars generated by PhaseCapital Funds and the Account may be used by PhaseCapital to service accounts other than PhaseCapital Funds or the Account. In the event that a product or service obtained with soft dollars provides both research and non-research assistance to PhaseCapital, it will make a reasonable allocation of the cost that may be paid for with soft dollars.

When client brokerage commissions are used to obtain research or other products or services, PhaseCapital receives a benefit because it does not have to produce or pay for the research, products or services. Further, PhaseCapital has an incentive to select or recommend a broker-dealer based on PhaseCapital's interest in receiving the research or other products or services, rather than on the client's interest in receiving most favorable execution.

PhaseCapital manages more than one account, and allocation of investment opportunities among such accounts are made on a basis that PhaseCapital has determined in good faith to be fair and reasonable taking into account relevant considerations such as the investment objectives and investment portfolio of each account. When the purchase and sale of securities is considered to be in the best interest of more than one account, the securities to be purchased or sold may be aggregated in order to obtain superior execution and/or lower brokerage expenses. Execution prices for identical securities purchased or sold on behalf of multiple accounts in any one business day may be averaged. In such instances, allocation of prices, as well as expenses incurred in the transaction, shall be made in a manner that PhaseCapital considers to be equally as favorable to all participating accounts.

#### **Item 13. Review of Accounts**

The strategies employed in PhaseCapital Funds and the Account are monitored on a regular basis by PhaseCapital's investment personnel to seek to insure consistency with PhaseCapital Fund's and the Account's intended strategy. A key component of PhaseCapital's infrastructure is its proprietary portfolio management and risk platform that enables real-time monitoring and back-test capabilities together with the ability to report on a variety of metrics. These reviews are typically conducted by John Donahue Chief Executive Officer, and Dr. Geoffrey Goodell, Chief Investment Officer.

Statements that set forth estimated monthly and year-to-date performance and capital balances are sent to investors in PhaseCapital Funds and the Account monthly. In addition, PhaseCapital provides investors in PhaseCapital Funds and the Account with a monthly report that typically includes a review of performance from the prior month and commentary on certain topics. Within 120 days after the end of each fiscal year, audited financial statements will be prepared for Phase II Master Fund, Phase II Onshore Feeder and Phase II Offshore Feeder and sent to each investor.

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

No person that is not an investor in PhaseCapital Funds provides PhaseCapital with an economic benefit for providing investment advice or other advisory services to PhaseCapital Funds.

PhaseCapital currently compensates one firm for client referrals based on a percentage of revenue that PhaseCapital receives from clients referred by such firm and with a monthly fee. There are no sales charges payable by PhaseCapital Funds in connection with the sale of interests therein.

**Item 15. Custody**

PhaseCapital does not act as custodian for PhaseCapital Funds or the Account. However, the General partner, which is an affiliate of PhaseCapital may be deemed to have custody of PhaseCapital Fund's assets because of the authority PhaseCapital has over those assets. To satisfy the SEC's custody rule requirements, PhaseCapital Funds will provide its investors with financial statements audited by an independent public accounting firm that is registered, and subject to regular inspection by, the Public Company Accounting Oversight Board, within 120 days of the end of each fiscal year.

**Item 16. Investment Discretion**

PhaseCapital has discretionary authority to manage the assets of PhaseCapital Funds pursuant to an investment management agreement with such Fund. This agreement includes an explicit grant of discretionary authority to manage such Fund's assets. There are no specific limitations placed on this authority, provided that PhaseCapital will exercise its discretionary authority in accordance with the investment objectives and strategy and applicable limitations, if any, set forth in such Fund's offering documents.

**Item 17. Voting Client Securities**

PhaseCapital has adopted policies and procedures pursuant to Rule 206(4)-6 under the Advisers Act with respect to voting proxies on behalf of PhaseCapital Funds. PhaseCapital will generally vote proxies on behalf of PhaseCapital Funds, although it may elect to abstain from voting under the circumstances set forth in PhaseCapital's Proxy Voting Policies and Procedures. It will only cast proxy votes in a manner consistent with the best interests of PhaseCapital Funds and the Account. Absent special circumstances, which are described in PhaseCapital's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in PhaseCapital's Proxy Voting Policies and Procedures, as they may be amended from time to time. A summary of certain aspects of PhaseCapital's Proxy Voting Policies and Procedures is as follows:

- The CCO or his or her designee will be responsible for monitoring corporate actions, making voting decisions in the best interest of PhaseCapital Funds and the Account and seeking to ensure that proxies are submitted in a timely manner.
- PhaseCapital will generally vote proxies in accordance with PhaseCapital's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented.

- Although the Proxy Voting Guidelines are to be followed as a general policy, certain issues will be considered on a case-by-case basis based on the relevant facts and circumstances as determined by the CCO or his or her designee.
- In situations where the CCO or his or her designee determines that there is a conflict of interest in the voting of proxies due to business or personal relationships that PhaseCapital maintains with persons having an interest in the outcome of certain votes, the CCO or his or her designee will take appropriate steps to seek to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

Any holder of an interest in PhaseCapital Funds or the Account may request a copy of PhaseCapital's proxy voting policies and procedures, as well as information regarding how PhaseCapital voted proxies on behalf of PhaseCapital Funds, by calling Lorena Timko at 617-587-5804, or by submitting a written request to her attention c/o PhaseCapital LP, 185 Dartmouth Street, 7<sup>th</sup> Floor, Boston, Massachusetts, 02116

**Item 18. Financial Information**

PhaseCapital believes that it has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients, and PhaseCapital has not been the subject of any bankruptcy proceeding.