

***Item 1 - Cover Page***

**INNOVATIVE CAPITAL ADVISORS, LLC  
FORM ADV – PART 2A INFORMATION**

January 23, 2015

1 North Wacker Drive, Suite 2000  
Chicago, IL 60606  
Phone (312) 263-6410 Fax (312) 873-4152  
[www.icadv.com](http://www.icadv.com)

**This brochure provides information about the qualifications and business practices of Innovative Capital Advisors, LLC (“Innovative Capital”). If you have any questions about the contents of this brochure, please contact us at (312) 263-6410. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Innovative Capital (CRD No. 161281), including a copy of its Form ADV Part 1, is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

***Item 2 - Material Changes To This Brochure Since Its Last Annual Update filed January 2015***

June 2014 the home office moved to 1 N. Wacker, Suite 2000, Chicago, IL

**Item 3**

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#### ***Item 4 - Advisory Business***

Innovative Capital Advisors, LLC (“Innovative Capital”) is an Illinois limited liability company that provides commercial loan portfolio management services to its clients (“Clients”) which are insurance company-funded trusts and insurance companies. Innovative Capital has provided such services since June 2003 operating under exemptions from registration as an investment adviser under the Investment Advisers Act of 1940 and applicable state law. New trust clients are not currently being accepted by Innovative Capital. Innovative Capital is owned by several members, none of which holds 25% or more interest in the firm. Innovative Capital does not engage in any other business, or control any other firm.

The advisory services of Innovative Capital are described in detail below.

#### **Management Services to Trusts**

ICA Mortgage Capital, LLC (“ICA”), an affiliate of Innovative Capital, has acted as the grantor of certain commercial loan trusts. As one aspect of its business, ICA originated commercial mortgage loans (“Loans”) and identified Loans that it believed were suitable for acquisition by the trusts through ICA’s current relationship with a national network of mortgage correspondents. Such mortgage correspondents have contacts with key developers and owners in their local markets and direct Loans to ICA if they believe the Loans fit ICA’s investment guidelines. If ICA believed a particular Loan was in the best interests of the trusts, it recommended to Innovative Capital that it consider such Loan as an investment for one of the trusts. If Innovative Capital agreed, Innovative Capital would direct a trust to purchase such Loan and Innovative Capital would then administer, service and, if necessary, resolve such Loan on behalf of such trust.

Innovative Capital entered into two separate agreements with each trust Client: a Master Servicing Agreement and Investment Adviser Agreement. A description of each follows:

#### **Master Servicing Agreement**

Under the Master Servicing Agreement, Innovative Capital performs certain administrative services including, but not limited to:

- Counseling, advising and directing the trustee with respect to the negotiation, drafting and enforcement of the servicing agreements between the trust and the servicers to the extent the trust is party to such servicing agreements;
- Administering and/or servicing the Loans, to the extent the master servicer deems reasonable, necessary or convenient, and taking any and all actions on behalf of the trust that the master servicer deems reasonable;
- Preparing any and all tax returns the trust may be required to file; and
- Upon assignment to and/or acquisition by the trust of a Loan, causing to be recorded and/or filed all assignments of mortgage/deed of trust, and Uniform Commercial Code financing statement amendments.

The Master Servicing Agreement may be terminated at any time upon Innovative Capital giving not less than one hundred eighty (180) days prior written notice to the trust. Innovative Capital may be removed at any time by the Certificate Holders of a particular trust upon sixty (60) days prior written notice, provided over fifty percent (50%) of the Certificate Holders give their prior written consent. A “Certificate Holder” is a beneficiary of a trust whose interest is evidenced by a Certificate registered upon the books and records of the trustee with respect to such trust.

### Investment Adviser Agreement

Under the Investment Adviser Agreement with each trust, Innovative Capital performs certain advisory services including, but not limited to:

- Counseling, advising and directing the trustee, upon the trustee's request, as to the investment of the proceeds of the trust, and the acquisition, assignment and disposition of Loans by the trust;
- Managing and administering the Loans and taking any and all actions on behalf of the trust Innovative Capital deems necessary, including, but not limited to (i) amending, modifying and/or extending any Loan, the terms and conditions of any Loan and/or any Loan document; (ii) granting releases and/or partial releases with respect to any collateral; and (iii) accepting prepayments and/or partial payments with respect to any Loan.
- Monitoring the performance of the Loans in the trusts and, with respect to any liquidating Loan, taking any and all actions on behalf of the trust, including, but not limited to (i) foreclosing, selling, disposing of or otherwise realizing on collateral; (ii) initiating and prosecuting foreclosure actions, collection actions, receiverships, involuntary bankruptcy actions, and/or Uniform Commercial Code sales; (iii) restructuring, amending, compromising and/or restating the liquidating Loan in accordance with its customary procedures; and (iv) appearing and participating in any bankruptcy action that could affect the collateral and/or the subject of which is the borrower or an accommodation party under the terms of the liquidating Loan.

The Investment Adviser Agreement with a trust Client may be terminated at any time upon Innovative Capital giving not less than one hundred eighty (180) days prior written notice to the trust Client. Innovative Capital may be removed as adviser at any time by the Certificate Holders of a particular trust upon sixty (60) days prior written notice, provided over fifty percent (50%) of the Certificate Holders give their prior written consent.

As of December 31, 2014, Innovative Capital had \$265,278,705 in Loan assets under discretionary management and none under non-discretionary management.

### **Management Services to Insurance Companies**

Innovative Capital also provides direct investment management services to insurance company Clients having an interest in acquiring or advancing Loans or interests therein ("Interests"). When providing these services, Innovative Capital has discretion to invest only in commercial mortgage Loans which are secured by a first priority mortgage/deed of trust lien or conveyance and does so using the Loans presented to it by ICA as described above for trust Clients. Loans are generally structured so that several Clients advance the principle amount of such Loan and, as a result, co-invest together in such Loan. Accordingly, Clients are direct lenders to the borrowers of the Loans. Client funds, Interests in the Loans and the proceeds thereof are deposited, held and disbursed from custodial accounts maintained by UMB Bank, N.A.

Typically, a Client will own no more than a 40% Interest in each Loan. Also, before Innovative Capital considers a Client account acceptable for management services, the Client is required to have future funds available over a fixed period of time, often twelve-months in duration, for purposes of making investments in Loans. During such time period, Innovative Capital will ask Client to make contributions to their accounts as Loans become available. A Client's co-investment in a Loan will vary during any particular time period depending on such Client's commitment to advance funds for Loans and the total amount of commitments from all Clients to advance funds for Loans during such period (each such period of time is referred to herein as an "Investment Period").

As part of the discretionary services agreement each Client signs, Clients grant Innovative Capital the authority to sign all Loan documents and take all actions on behalf of the Client with respect to advancing or otherwise making Loans. At the closing of each Loan, pursuant to and in accordance with the authority granted to it by the Clients making such Loan, Innovative Capital executes an agency agreement whereby such Clients appoint Innovative Capital as their agent to undertake all actions and make all decisions on behalf of such Clients with respect to such Loan including, among other things, the ability to administer, service and, if necessary, resolve such Loan or the Interests therein as Innovative Capital deems appropriate without any further consent or direction from such Clients.

### ***Item 5 - Fees and Compensation***

Fees paid to Innovative Capital are for Innovative Capital's advisory services only. The fees do not include, for example, the fees charged by third parties such as accountants and attorneys assisting with providing the Client with accounting and legal advice, or UMB for its custodial services. Commissions on transactions and other account fees will also be charged by the account custodian in accordance with the custodian's normal fee schedule.

### **Fees Due From Trust Clients For Services**

As described above, Innovative Capital continues to provide both Master Servicing and Investment Adviser services for trust Clients. The fees for these services are as follows:

#### **Master Servicing Fees**

In exchange for performing the master servicing services, Innovative Capital receives an annual fee equal to one-tenth of one percent (0.1%) of the amortized book value of the principal amount of the Loans in the trust outstanding from time to time. The fee is paid monthly in advance on the first day of each calendar month. The fee is calculated based on the amortized book value of the aggregate principal amount outstanding under all of the Loans, including, but not limited to, any Loans in default or for which a payment deficiency exists, on the twentieth (20th) day of the previous calendar month. The fee for any partial month is pro-rated and any excess fee received is returned to the trust. The "amortized book value" means the principal amount of a Loan then outstanding, plus any amortized premium paid by the trust for such Loan or minus any accrued discount received by the trust for such Loan.

Innovative Capital may also be reimbursed for any tax expenses it incurs with regard to a trust.

#### **Investment Adviser Services Fees**

Innovative Capital receives from each trust Client an annual advisory fee equal to four-tenths of one percent (0.4%) of the amortized book value of the principal amount of the Loans outstanding from time to time. The fee is paid monthly in advance on or before the first day of each calendar month and calculated based on the amortized book value of the aggregate principal amount outstanding under all of the Loans including, but not limited to, any Loans in default or for which a payment deficiency exists, on the twentieth (20th) day of the previous calendar month. The fee for any partial month or payment period is pro-rated and any excess, unearned fee is returned to each Client.

Trust Clients have authorized Innovative Capital to deduct any and all fees due Innovative Capital from the liquid loan proceeds held in the Client's loan interest account with the custodian. These are only paid from loan payments made by the borrower/obligors.

Innovative Capital may also be reimbursed for any liquidation or tax expenses it incurs with regard to a trust or its Loans.

## **Fees Due From Insurance Company Clients for Services**

Each insurance company Client agrees to compensate Innovative Capital for its services in evaluating Loans at a rate of \$400 per year, payable in advance before such services are provided. In addition to such annual fee, and to compensate Innovative Capital for its services to administer, service and resolve Loans, Innovative Capital receives a monthly fee with respect to each Loan in the amount of .04167% of the amortized book value of the principal amount of such Loan, calculated as of the 20th day of the calendar month immediately preceding the calendar month for which such monthly fee is due.

Insurance company Clients authorize Innovative Capital to deduct any and all fees due Innovative Capital from the proceeds held in the Clients' accounts with the custodian.

Innovative Capital may also be reimbursed by each Client for its pro-rata share of any liquidation, tax or other expenses or liabilities Innovative Capital incurs with regard to any Loans in which such Client may hold an Interest.

## ***Item 6 - Performance Based Fees and Side-by-Side Management***

Innovative Capital does not charge any performance-based fee. All fees are disclosed above.

## ***Item 7 - Types of Clients/Minimum Account Size***

Innovative Capital makes advisory services available to insurance companies and grantor trusts in which insurance companies are the beneficiaries.

Innovative Capital does not generally impose any minimum condition/minimum account size for providing its services to insurance companies. However, due to the need for contributions from several Clients to advance Loans, Innovative Capital asks Clients to commit to contributing to their accounts certain sums over a fixed period of time, often twelve months in duration, so Innovative Capital can anticipate that funds will be available from multiple Clients to advance Loans.

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

In presenting Loans to Innovative Capital, ICA analyzes each proposed Loan based on, among other things, the ability of the underlying real estate securing such Loan to service the proposed Loan and the total value of the mortgaged property. ICA and Innovative Capital also emphasize the following underwriting criteria in evaluating potential Loan opportunities for Clients:

- **Debt Service Coverage** - For mortgaged property comprised of office, retail or industrial property, a debt service coverage of 1.25x or greater based on a 25 year amortization. For mortgaged property comprised of multi-family property, a debt service coverage of 1.20x or greater based on a 25 year amortization.
- **Loan to Value Ratio** - A ratio of the Loan to the value of the mortgaged property of not more than 75%. A third party appraisal by a state certified, MAI appraiser considering a mortgaged property's cost, sales and income values will be completed for each Loan.
- **Loan Size** - A loan amount of no more than \$3,000,000 in order to minimize Clients exposure to any particular borrower and/or mortgaged property.
- **Property Type** - Mortgaged property used for office, retail, multi-family, industrial and/or other purposes that do not require strong and active property management. Properties that require such strong and active management, such as golf courses, health care facilities and hospitality properties, will be avoided. Innovative Capital will not knowingly commit to fund or present to Clients any mortgaged property where voluntary abortions or similar medical procedures to

remove an embryo or fetus from the uterus to prematurely terminate a pregnancy are performed. Innovative Capital will use reasonable efforts so that, during any particular Investment Period, no more than fifty percent (50%) of the Loans advanced during such Investment Period will be related to any one type of property.

- **Location** - A mortgaged property located in the 50 states and the District of Columbia, provided however, that Innovative Capital will use reasonable efforts to consider geographic diversity within the United States or any given region during each Investment Period so that no more than thirty-five percent (35%) of such Loans advanced during such Investment Period are secured by mortgaged property in any one state.
- **Cap Rates**. For mortgaged property comprised of multi-family property, a ratio of net operating income to the appraised value of such property of at least 8.25% or greater. For all other types of mortgaged property, a ratio of net operating income to the appraised value of such property of least 8.5% or greater.
- **Market and Property Specific Considerations** - Favorable analysis, in the aggregate, of the vacancy rates in a given mortgaged property's market, the capitalization rates for a proposed borrower, the lease terms remaining at a mortgaged property, the credit of the tenants at a mortgaged property, the ratio of the Loan per square foot of the mortgaged property and the proposed borrower's financial information.

In utilizing such criteria, ICA will typically review and/or evaluate the following items and factors as part of its underwriting for a particular Loan before presenting such Loan to Innovative Capital for consideration:

- The rent roll of a mortgaged property;
- The economic terms of the mortgaged property's significant leases;
- The credit of the mortgaged property's significant tenants;
- The physical condition of the mortgaged property;
- An appraisal of the mortgaged property;
- Engineering and environmental reports for the mortgaged property;
- The current real estate market in which the mortgaged property is located, including rental rates, occupancy rates and absorption trends;
- The credit and other background information of the principals of the borrower;
- The borrower's ownership structure and organizational documents;
- Title reports and a survey for the mortgaged property, and
- The mortgaged property's insurance coverage.

Innovative Capital does not guarantee the results of the advice given. Thus, significant losses can occur by investing in any Loan or Interest therein or by following any strategy, including those recommended or applied by Innovative Capital. Some of the risks are described below:

- **No market For Interests**. Since there will be no readily available market for the Interests, transfers of the Interests may be restricted or not feasible and Clients may be required to hold the Interests for a long period of time.
- **Unspecified Loan Portfolio; Lack of Control of Loans**. Clients will not be able to evaluate for themselves the merits of any Loan to be advanced by Innovative Capital on behalf of such Clients



and such Clients will be required to contribute funds to their account in accordance with the terms of their Discretionary Investment Management Services Agreement without the ability to evaluate any such Loans. Clients will instead be relying upon Innovative Capital's ability in its sole discretion to select Loans that are appropriate and to decide whether to hold, foreclose or otherwise resolve such Loans from time to time. Innovative Capital will have complete discretion to direct all Clients regarding Loans to be advanced, foreclosed or otherwise resolved by the Clients, subject to Innovative Capital's investment strategy.

- **Limited Availability of Loans.** Loans become available for investment as they are located and not all Loans presented to or sourced by Innovative Capital will meet Innovative Capital's investment strategy or underwriting requirements. There is no guaranty that Innovative Capital will be able to identify enough Loans meeting its investment strategy and underwriting requirements to fully implement Innovative Capital's investment strategies (including without limitation its diversification and risk mitigation strategies) or fully advance all of the funds a Client commits to advance to its account with the custodian.
- **Potential Diminishing Interests in Loans.** Each Client will advance and acquire pro-rata Interests in Loans generally in proportion to such Client's commitment to advance funds for Loans compared with the total amount of commitments from all Clients to advance funds for Loans. Since Innovative Capital may add new Clients making additional commitments from time to time, each Client may receive smaller portions of Loans the longer such Client's commitment to advance funds is outstanding.
- **Limited Track Record; Limited Assets.** Certain borrowers may be a newly formed entity with no or little operating history or loan payback records. The actual ability of a borrower to meet its payback obligation therefore may be unpredictable resulting in the risk to Clients since payments to the holders of Interests will depend solely on the amount and timing of the payments made by the obligors under the Loans.
- **Potential Conflicts of Interest.** Although Loans and Loan opportunities referred to or sourced by Innovative Capital may meet its investment strategies and underwriting criteria, Innovative Capital is under no obligation to refer any Loan or Loan opportunity to any particular Client. Furthermore, Innovative Capital may be obligated, or may elect in its sole and absolute discretion, to recommend Loans or Loan opportunities to other Clients, notwithstanding any conflict of interest that the Innovative Capital may have with respect to any particular Client.
- **Payment Risk, Limited Interest, No Credit Enhancement.** The Loans do not have any source of payment other than the payments made by the obligors thereunder. There is no form of credit enhancement or any type of insurance (whether private or government sponsored) that would provide an alternative source of payments to holders of the Loans.
- **Bankruptcy, Foreclosure, Real Estate Owned and Related Risks.** The Loans are subject to the ability of the obligors thereunder to make required payments. There can be no guarantee that an obligor will be able to make such required payments. If payments are not made by an obligor, the Clients may pursue the foreclosure of the collateral for the Loan or otherwise attempt to recover remaining amounts due and owing through litigation or other legal action. Obligor may file a bankruptcy petition to delay or prevent the exercise of a Client's remedies under or with respect to a particular Loan. Numerous statutory and common law provisions, including the United States Bankruptcy Code and state laws affording relief to debtors, may interfere with a Client's ability to obtain payment of a Loan, to realize upon collateral therefore and/or to enforce a deficiency judgment with respect thereto. Any legal enforcement efforts with respect to a Loan could create

significant expenses for the Clients and there can be no guarantee that a Client would be able to recover any or all amounts that remain owing under any such Loan. Further, if a Client succeeds to ownership of the collateral, including the real estate, then the Client could incur significant expenses and risks associated with the ownership, management and disposition of such collateral.

- **Risks Associated With Lending on Income Producing Properties.** Loans made with respect to income producing commercial properties may entail greater risks of delinquency and foreclosure, and risks of loss in the event thereof, than similar Loans made with respect to certain other types of properties. For example, the ability of an obligor to repay a Loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than any independent income or assets of the obligor; thus, the value of an income-producing property is directly related to the revenues and cash flow derived from such property, which revenue is generally received in the form of rental income from tenants. A decline in the revenue or cash flow of an income property will likely affect both the performance of the related Loan as well as the liquidation value of property serving as security for such Loan.
- **Environmental Risks.** Real property pledged as security for a Loan may be subject to certain environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to assure the costs of cleanup. In several states, such a lien has priority over the lien of an existing mortgage against such property. In addition, under the laws of some states, and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 a mortgagee, such as a Client, may be liable as an “owner” or “operator” for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property, if agents or employees of the mortgagee have become sufficiently involved in the operations of the obligor, regardless of whether the environmental damage or threat was caused by a prior owner.
- **Value of Collateral.** While Innovative Capital will obtain appraisals or evaluations of the actual value of mortgaged property before advancing any particular Loan on behalf of a Client, the accuracy of such appraisals and/or the Client’s ability to realize on such values can not be guaranteed. No assurance can be given that the value of a mortgaged property, or any other collateral pledged with respect to a Loan, will remain at the same level as on the date of the closing of such Loan. Further, there is no assurance that appreciation of real estate values generally will limit loss experiences on commercial properties. If the commercial real estate market should experience an overall decline in property values such that the outstanding balances of the Loans become equal to or greater than the value of the mortgaged properties, the actual rates of delinquencies, foreclosures and losses could be higher than those now generally experienced in the mortgage lending industry.
- **Nonrecourse Mortgage Loans; Limited Recovery.** A portion, if not all, of the Loans may be nonrecourse Loans or Loans for which recourse may be restricted or unenforceable. As to such Loans, in the event of a default by the obligor, recourse may be had only against the specific commercial property and such other assets, if any, as have been pledged to secure such Loan. With respect to those Loans that provide for recourse against the obligor and its assets generally, if any, there can be no assurance that such recourse will provide a recovery in respect of such greater than the liquidation value of the related mortgaged property.
- **Balloon Payments.** The Loans generally will not be fully amortizing over their terms to maturity and, thus, will require substantial principal payments (balloon payments) at their stated maturity. Loans with balloon payments involve a greater degree of risk because the ability of an obligor to make a balloon payment typically will depend upon its ability either to refinance the Loan or to

sell the related mortgaged property in a timely manner. The ability of an obligor to accomplish either of these goals will be affected by a number of factors, including the condition of the mortgage property, the level of available mortgage rates at the time of sale or refinancing, the obligor's equity in the related mortgaged property, the financial condition and operating history of the obligor and the related mortgaged property, tax laws, prevailing general economic conditions and the availability of credit for commercial real properties generally.

- **Size of Portfolio.** Only a limited number of Loans and Loan Interests will be acquired by Clients. Accordingly, a Client will not benefit from the diversification available from a larger pool of mortgage Loans and the concentration of default, foreclosure and loss risks for the Loans may be significant. Concentrations of Loans in geographic areas may also increase the risk that adverse economic or other developments, or a natural disaster affecting a particular region of the country, could increase the frequency and severity of losses with respect to the Loans.
- **Interest Opportunity Risk.** Payments made by Clients to fund their account will be deposited into a custodial account. Such funds, however, may not be immediately disbursed to advance Loans and acquire Interests. While the funds in a Client's account with the custodian may accrue interest, the Client may not receive or derive adequate compensation for such funds while such funds remain in such custodial account. However, Innovative Capital, when requesting Clients to deposit funds into such Client's account, will attempt to structure such requests for funds in a manner to reduce this risk.
- **Dependence on Innovative Capital Principals.** The success of a Loan and a Client's interest therein is dependent upon the experience and capabilities of Don Kane, Peter Mavrogenes, David Ogden, David Dillon, Kevin Ellis and Barbara Bartmann. If some or all of the foregoing individuals are unable or do not continue as principals of Innovative Capital or ICA, Innovative Capital's ability to identify Loans for origination by Clients could be severely and negatively impacted. Innovative Capital does not maintain any key man life insurance on any of these individuals. Likewise, if some or all of the foregoing individuals are unable to continue as principals of Innovative Capital, Innovative Capital's ability to serve as the servicer and adviser with respect to the Loans could be severely and negatively impacted.
- **Impact of Economy.** The economic performance of the United States or any area of the United States can have a significant impact on obligors of the Loans and their ability to pay. The portfolio of Loans for particular Clients is not necessarily geographically diverse and a negative impact of the economy on one area of the country could increase the risks associated with such portfolio. The costs to monitor the Loans, including but not limited to costs charged by servicers and sub-servicers employed to service the Loans, may increase over time and reduce the amounts payable to Clients.

#### ***Item 9 - Disciplinary Information***

Innovative Capital does not have any disciplinary information to report regarding itself or any of its principals or other related persons.

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

Innovative Capital is affiliated with ICA which is licensed in Illinois as a Loan broker and business broker.

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

Innovative Capital has developed a Code of Ethics applicable to all persons who have access to confidential Client records or to recommendations being made for Client trust accounts. Designed to prevent conflicts of interest between the financial interests of Clients and the interests of the firm's staff, the Code requires, among other procedures, such "access persons to obtain preapproval of certain securities transactions, to report transactions quarterly and to report all securities positions in which they have a beneficial interest at least annually." These reporting requirements allow supervisors at the firm to determine whether to allow or prohibit certain employee securities purchases and sales based on transactions made, or anticipated to be made, in the same securities for Clients' accounts. The Code also establishes certain bookkeeping requirements relating to federal reporting rules. The Code is required to be reviewed annually and updated as necessary. A complete copy of the firm's Code is available upon request.

### ***Item 12 - Brokerage Practices***

Innovative Capital recommends UMB Bank, N.A., ("UMB") a national banking association to act as each Client's account custodian to hold funds and Interests. Clients should be aware that Innovative Capital and UMB are not affiliated and there is no direct link between Innovative Capital and UMB in connection with the advice Innovative Capital gives to Clients. Innovative Capital and its trust Clients do not use brokerage firms to affect securities transactions. Instead, Loan transactions are negotiated transactions, all processed as private trades.

### ***Item 13 - Review of Accounts and Reports***

Clients receiving Management Services receive monthly reports regarding regulatory accounting, custodial, trustee and tax information. These reports are available on Innovative Capital's website.

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

Innovative Capital has also entered into an agreement with Conning & Company ("Conning") whereby Conning may refer certain clients to Innovative Capital who may benefit from Innovative Capital's advisory services. In return, if such clients referred by Conning become a Client of Innovative Capital, Innovative Capital pays Conning a portion of Innovative Capital's advisory fees.

### ***Item 15 - Custody***

It is anticipated that each insurance company Client will establish individual accounts at UMB into which such Client will deposit funds from time to time (the "Holding Accounts"). When Innovative Capital identifies a Loan for insurance company Clients, Innovative Capital causes funds from the Holding Accounts in the amount of such Loan to be aggregated in a custodial account at UMB maintained for the benefit of such insurance company Clients advancing such Loan (the "Funding Account"). Once aggregated, such funds are then disbursed to the borrower for such Loan. Funds are held in the Funding Account for only a short period of time prior to disbursement to a borrower, typically two (2) business days or less. Insurance company Clients who advance funds for a Loan through the Funding Account receive a fractional interest in such Loan in proportion to the amount advanced.

UMB also maintains a custodial account for the benefit of the insurance company Clients co-advancing Loans together (the "Revenue Account") into which all payments and proceeds resulting from such Loans are deposited. Funds held in a Revenue Account, less fees and expenses owed to Innovative Capital and

UMB, are disbursed to insurance company Clients monthly so that each insurance company Client receives its fractional interest of such payments and proceeds.

UMB provides reports of the balances and activity in the Holding Accounts, Funding Accounts and Revenue Accounts at least quarterly to each insurance company Client having an interest therein. Innovative Capital maintains subaccount records which reflect the interest each insurance company Client has in a Loan that is advanced by such Client. Innovative Capital has the ability to debit it fees and expenses from funds available in the Funding Accounts and Revenue Accounts and has established a procedure to have a surprise audit performed annually on Client accounts it has custody over.

To the extent a Client receives any account or other statement from Innovative Capital, Innovative Capital recommends the Client carefully compare the report to the information on the custodian's statements received by the Client.

#### ***Item 16 - Investment Discretion***

When providing Management Services, Innovative Capital does exercise discretion when granted authority by Clients and most Clients grant discretionary authority to Innovative Capital. When doing so, it allows Innovative Capital to select the Loans, or Interests therein, on behalf of the Client, to advance Loans and allocate Interests to a Client's account, and modify, foreclose or otherwise resolve Loans and Interests without obtaining specific consent from the Client for such actions. Clients should be aware that Innovative Capital may make different recommendations with respect to the same Loans and Interests to different Clients.

#### ***Item 17 - Voting Proxies on Client Securities***

Innovative Capital does not vote proxies because its business only involves loans, not equity investments.

#### ***Item 18 - Financial Information***

Innovative Capital does not require or solicit from any Client fees of more than \$1,200 six months or more in advance, thus no financial statement for Innovative Capital is attached. Innovative Capital does not have any financial condition that is reasonably likely to impair its ability to meet its contracted commitment to any Client.

## **PRIVACY POLICY**

**Preserving trust is a core value. Innovative Capital Advisors, LLC (“Innovative Capital”) recognizes that Clients expect us to protect the information they provide us and to use it responsibly. We are strongly committed to fulfilling the trust that is the foundation of our Clients’ expectations. For that reason we have adopted and adhere to the following policy regarding the privacy of Client information.**

### Why We Collect And How We Use Information.

When we evaluate your request for our services, provide investment advice to you and consummate transactions for your account, you typically provide us with certain personal information necessary for us to provide these services. We may also use that information to offer you other services we or an affiliate may provide which may meet your investment needs.

### What Information We Collect.

The information we collect may include; name and address; employer, Social Security number or tax payer identification number; assets; income; account transactions; investment and other financial product positions and balances; investment objectives; accounts at other institutions; transactions at other institutions, including affiliates; the identities of accountants, attorneys and other professionals you engage; information we receive from third parties, including credit bureaus; and information we obtain to verify your representations to us, such as your identity and assets.

### We Limit How, and With Whom We Share Your Information

We do not sell your personal information to anyone. We may disclose information about you, with your consent, to our employees, affiliates, representatives and their affiliated businesses. We may disclose information to non-affiliated third parties when providing services to you. Non-affiliated third parties may include retirement plan sponsors or third-party administrators, mutual fund companies, insurance companies and agencies, third-party advisory firms, banks, broker-dealers, transaction clearing firms, accountants, lawyers, securities professionals, companies that assist us with the maintenance of required records, and others to assist us, or them, in providing services to you. We may also share information with companies that perform services on our behalf, such as the companies that we hire to perform marketing or administrative services. Companies we may hire to provide support services are not allowed to use your personal information for their own purposes. We may also make additional disclosures as permitted by law.

We will also share the information we received from you as required by laws and rules applicable to you, client account service providers, Innovative Capital or Innovative Capital’s representatives. If you close your account, in the process of transferring your accounts we may share your information with the new investment adviser or custodian that you select. Innovative Capital may use the personal information about you, that is in its files, to provide you with information regarding the new firm, account transfer procedures and documents.

If you prefer that we not share your non-public personal information (except in those circumstances described above that are permitted or required by law), you may opt out at any time by notifying us not to share information. To notify us, please call us at (312) 263-6410. You will be asked to provide identifying Client information at that time, including your Social Security Number or tax payer identification number.

For accounts that are held jointly by more than one Client, any of the account holders may opt out on behalf of the other account holders. Any opt out instructions received from one owner of a joint account will apply also to individual accounts in that person's name, as well as other accounts held jointly by that person, based on the account information we have.

#### How We Protect Information.

Employees and our advisory representatives are required to comply with our established information confidentiality procedures. We also maintain physical, electronic, and procedural safeguards to protect information. For example, our computer systems utilize password protection to prevent access by unauthorized personnel. Innovative Capital ensures service providers provide assurances that they will restrict their use of the information provided about you.

#### Access To and Correction of Your Information.

Upon your written request, we will make available your information for review. Information collected in connection with, or in anticipation of, any claim or legal proceeding will not be made available. If your personal information with us becomes inaccurate, or if you need to make a change to that information, please contact us at the number shown below so we can update our records. Also, if you believe someone has accessed your account without authorization, please contact us.

#### Further Information.

For additional information regarding our privacy policy, or if you have any questions and/or concerns about your account or about our services, please contact us by writing to us at 1 North Wacker Drive, Suite 2000, Chicago, Illinois 60606, or telephone us at (312) 263-6410.