

# **Marathon Trading Investment Management LLC**

## **Part 2A of Form ADV**

January 9, 2014

**This brochure provides information about the qualifications and business practices of Marathon Trading Investment Management LLC (“the Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (610) 254-4890 or [rgordon@marathontradingllc.com](mailto:rgordon@marathontradingllc.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Additional information about the Adviser is also available on the SECs website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of the Adviser should be considered carefully in your decision to hire or retain us to provide advisory services.

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## **Item 2: Material Changes**

Not applicable.

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## **Item 4: Advisory Business**

The Adviser is an investment adviser with its principal place of business in Wayne, Pennsylvania. The Adviser was founded in May 2012. The Adviser is owned by Peter Viscardo and Robert Gordon (the “Principals”).

The Adviser currently provides investment advisory services on a discretionary basis to a private pooled investment vehicle (the “Marathon Fund”) intended only for sophisticated investors. The Marathon Fund invests substantially all its assets through Marathon Trading Group LLC (“Marathon BD”), a broker-dealer registered with the SEC, for which the Adviser acts as its investment manager.

The Adviser seeks capital appreciation for the Marathon Fund primarily but not exclusively through volatility arbitrage. Volatility arbitrage is a type of statistical arbitrage that is implemented by trading both options on a stock (or other asset) and the underlying asset itself, and seeking to capture the difference between the implied volatility of the option in the marketplace and the Adviser’s prediction of the actual volatility of the underlying asset.

Stated regulatory assets under management of the Adviser include the regulatory assets under management of Marathon BD. Marathon BD is not a “private fund” as defined in the Glossary of Form ADV.

The Adviser currently does not tailor advisory services to the individual needs of a client, although, under certain circumstances, it may do so in the future. In the event the Adviser is engaged to manage separately managed accounts, the Adviser will do so pursuant to investment management agreements, which will specify the terms of the engagement of the Adviser. Pursuant to such agreements, clients may impose restrictions on investing in certain securities or certain types of securities.

As of October 31, 2014, the Adviser managed approximately \$886,827,317 in regulatory assets under management on a discretionary basis.

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

The Marathon Fund charges its investors no management fee but receives an annual incentive allocation equal to 50% of the its net profits whether realized or unrealized, subject to a loss carry-forward. The compensation described above may be paid to the Adviser and/or to an affiliate of the Adviser. Please refer to *Item 10 - Other Financial Industry Activities and Affiliations* section for more information about the Adviser’s affiliates.

In the event the Adviser launches a new private fund, it expects to charge a monthly management fee of 0.167% (i.e., 2.0% per annum), assessed as of the beginning of each calendar quarter based on the total value of the assets in the private fund on the first day

of the quarter, adjusted for contributions and withdrawals made during the quarter. The Adviser would also expect to charge a 20% incentive allocation at year-end based on realized and unrealized profit and loss, subject to a loss carry-forward provision. The Adviser would retain the ability, in its sole discretion, to waive or reduce such management fee and/or the incentive allocation with regard to investors that are employees or affiliates of the Adviser, relatives of such persons, and for certain strategic investors.

The Adviser (or its affiliate) deducts the incentive allocation directly from the Marathon Fund. Performance allocations are paid annually or upon redemption of capital by an investor in the Marathon Fund, which investors may do only on a monthly basis.

The Marathon Fund pays all direct and indirect expenses of the Adviser including its operating, general, administrative and overhead costs and expenses (such as office rent, technology and supplies) as well as all salaries and benefits of employees of the Adviser (including reasonable salaries and benefits of the Adviser's principals). The Marathon Fund also bears its share of the Marathon BD's expenses including trading costs and expenses (for example, brokerage commissions, expenses related to short sales and clearing and settlement charges), and all ongoing legal, accounting and bookkeeping fees and expenses. These expenses also include the fees and expenses charged by any third party for administrative, accounting and bookkeeping services. In addition, to the extent the Marathon Fund or Marathon BD is invested in money market funds, exchange-traded funds ("ETFs") or other registered investment companies, it will bear its pro rata share of the investment management fee and other fees of the fund, which are in addition to the fees and expenses paid to the Adviser. Please refer to *Item 12 – Brokerage Practices* of this Brochure for a discussion of the Adviser's brokerage practices.

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

As stated in Item 5, the Adviser (or an affiliate of the Adviser) is paid performance-based compensation by the Marathon Fund. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component. The fact that the Adviser is compensated based on trading profits may create an incentive for the Adviser to make investments on behalf of the Marathon Fund that are riskier or more speculative than would be the case in the absence of such compensation arrangements. The incentive allocation could be based on unrealized gains that the Marathon Fund may never realize.

Though currently the Adviser effectively does not have multiple accounts (as the Marathon Fund is the sole member of Marathon BD), the Adviser has adopted and implemented policies and procedures intended to address conflicts of interest that may arise relating to the management of multiple accounts, including conflicts pertaining to those accounts with differing fee arrangements and/or where the allocation of limited investment opportunities may preclude a pro rata distribution of same. The Adviser maintains policies and procedures containing guidelines for circumstances in which an investment opportunity may be allocated across multiple clients (including those with

similar investment strategies) on a basis other than pro rata. These factors include a client's investment objective and strategies; risk profile; tax status; any restrictions placed on a client's portfolio by the client or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended); account size; total portfolio invested position; nature of the security to be allocated; size of available position; supply or demand for a security at a given price level; current market conditions; timing of cash flows and account liquidity; Marathon BD's status as a registered broker-dealer; and any other information determined to be relevant to the fair allocation of investment opportunities.

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

The Adviser provides investment advisory services on a discretionary basis to the Marathon Fund and Marathon BD. The Adviser does not currently advise any separately managed accounts. The initial and additional subscription minimums for the Marathon Fund and any private funds the Adviser may advise in the future are or will be disclosed in their respective offering documents. The Adviser may waive minimum investment thresholds on a case-by-case basis.

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

The Adviser's (and the Marathon Fund's) investment objective is to achieve capital appreciation by seeking to produce above average absolute returns with, in the view of the Adviser, acceptable risk relative to potential returns. The Adviser will primarily seek to achieve the Marathon Fund's objective through a strategy known as "volatility arbitrage." Volatility arbitrage is a type of statistical arbitrage that is implemented by trading both options on a stock (or other asset) and the underlying asset itself, and seeking to capture the difference between the implied volatility of the option in the marketplace and the Adviser's prediction of the actual volatility of the underlying asset.

The Adviser will primarily trade in equity, index and exchange traded fund ("ETF") options, and equities and indexes underlying such options (such equities and indexes, "Underlying Assets"). Additionally, the Adviser may engage in special situations strategies including, but not limited to, split offs, spin offs, rights offerings, dutch tenders, and other corporate actions that may affect the pricing of the underlying options, and other strategies and techniques outlined below. The Adviser may also attempt to capture a portion of the bid/ask spread of a given equity option.

The Adviser will generally seek to execute its volatility arbitrage strategy by purchasing and selling exchange-listed equity options and seeking to hedge these transactions with their Underlying Assets with the goal of producing positions that are risk neutral with respect to small changes in the price of the Underlying Asset. The Adviser's strategies and techniques may also include large volumes of trades that seek to capture bid/ask spreads, dispersion trading, long/short volatility spread trading and other strategies and techniques, including, but not limited to, buying or selling options on a given asset to

seek to capture the spread between the implied and predicted volatility, buying and selling of options on a given asset to isolate a potential discontinuity in the implied distribution of a stock (e.g., buying a 40 strike put and selling a 35 strike put), or buying and selling options on a given asset to isolate a potential opportunity in the term structure (e.g., buying the July 40 put and selling the September 40 put). Additionally, dispersion trading strategies consist of buying/selling options on some or all component members of an index or ETF versus buying/selling options on the index or ETF itself in an attempt to capture the spread between the implied correlation and the correlation predicted by the Adviser, and long/short volatility spread trading strategies consist of buying options on a given asset and selling options on another correlated asset.

The Adviser will seek to capitalize on investment opportunities in the market through a diversified portfolio of long and short volatility positions. The Adviser will also employ investment strategies designed to seek to capture perceived opportunities in the volatility, skew and term structure of a given underlying asset's options market. The Adviser may utilize short selling, intra-day or day-trading, and other techniques in trading the assets of the Adviser.

The Adviser will be utilizing both explicit and implicit leverage, which will result in the Adviser being substantially levered. Implicit leverage is that imbedded in options, and explicit leverage consists of margin loans provided by the Marathon Fund and Marathon BD's prime broker.

#### Arbitrage Transaction Risks

Arbitrage strategies attempt to take advantage of perceived price discrepancies of similar financial instruments, on different markets or in different forms. The Adviser generally seeks to employ a volatility arbitrage strategy. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent the Adviser is employing leverage on behalf of a client. Moreover, arbitrage strategies often depend upon identifying favorable "spreads," which can also be identified, reduced or eliminated by other market participants.

#### Swaps, Options, Futures and Other Derivatives

The Adviser may trade in exchange-traded and over-the-counter derivatives, including, but not limited to, swaps, options, futures and other interests. There are a number of risks associated with derivatives trading. Trading in these instruments is highly speculative and may entail risks that are greater than those of investing in other securities. These instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small change in the price of the contract may result in a profit or a loss that is high in proportion to the client's funds actually placed as initial collateral and may result in unquantifiable further loss exceeding any collateral deposited. These changes are

extremely difficult to predict.

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, and to counterparty risk. The counterparty risk lies with each party with whom the Adviser contracts for the purpose of making derivative investments (the “Counterparty”). In the event of the Counterparty’s default, the client will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive. Daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in the client’s net asset value, incorrect collateral calls or delays in collateral recovery.

Deciding whether, when and how to use derivatives involves different skills and judgment than those needed to select portfolio securities. Even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. If the Adviser incorrectly forecasts market values or other relevant factors, the client may be in a worse position than if it had not engaged in derivatives transactions. When derivatives are used for hedging, there may be no correlation between price movements in the derivative and in the portfolio securities being hedged. A lack of correlation could result in a loss on both the hedged securities and the hedging vehicle, so that the client’s return might have been better had it not attempted to hedge. Further, derivative instruments can be difficult to value accurately.

*Options.* Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage, which could in turn cause the value of a client’s account to be subject to more frequent and wider fluctuations than would be the case if the Adviser did not invest in options.

In addition, if the Adviser purchases options that it does not sell or exercise, it will lose the premium paid in such purchase. If the Adviser sells call options and must deliver the underlying securities at the option strike price, the client theoretically has an unlimited risk of loss if the price of such underlying securities increases. If the Adviser sells put options and must buy the underlying securities, the client risks the loss of the difference between the market price of the underlying securities and the option strike price. Any gain or loss from the sale or exercise of an option is reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. The



Adviser may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the client could incur an unlimited loss.

*Stock Index Futures.* Using stock index futures for hedging involves several risks. Price movement in the stock index and price movements in the securities that are the subject of the hedge do not always correlate. Positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange, and there is no secondary market for those contracts. In addition, there may be no active market for the contracts at any particular time. Some exchanges do not permit trading in particular contracts at prices that fluctuate more than a set limit in any day. If prices fluctuate during a single day beyond those limits, the Adviser may not be able to liquidate unfavorable positions promptly and may lose money.

### ETF Risk

Investments in ETFs (which may, in turn, invest in equities, bonds, commodities and other financial vehicles) may involve duplication of certain fees and expenses. By investing in an ETF, the client becomes a shareholder of that ETF. As a result, clients (and in turn investors in clients that are private investment funds) indirectly bear their proportionate share of the ETF's fees and expenses, which are paid by the client as a shareholder of the ETF. These fees and expenses are in addition to the fees and expenses that a client (and investors in clients that are private investment funds) directly bear in connection with the client's own operations. Because ETFs are listed on national stock exchanges and are traded like stocks listed on an exchange, the Adviser may acquire ETF shares at a discount or premium to their NAV and ETFs are subject to brokerage and other trading costs, which could result in greater expenses to the client. Finally, because the value of ETF shares depends on the demand in the market, the Adviser may not be able to liquidate a client's holdings at the most optimal time, adversely affecting the client's performance.

*Leveraged ETFs.* The Adviser invests in options on leveraged ETFs and also expects to invest directly in leveraged ETFs. Leveraged ETFs seek leveraged returns on a daily basis. As such, a leveraged ETF's return for a period longer than a single trading day will be the result of each day's returns compounded over that period. Compounding affects both ETFs and leveraged ETFs, but has more significant impact on leveraged ETFs. Moreover, use of leverage can increase profit potential but may also increase the risk of loss and volatility.

*ETF Counterparty Risks.* Some of the ETFs in which the Adviser invests (directly and indirectly through options) are swap-based ETFs or exchange-traded notes. Swap-based ETFs generally hold only a derivative contract with a counterparty pursuant to which the ETF gains exposure to the change in price of a specified security or basket of securities. A swap-based ETF (and thus clients, to the extent that they hold a long position) is exposed to the risk of default by that counterparty. The exchange-traded notes in which the Adviser may invest (directly and indirectly through options and futures) are notes issued by counterparties entitling the client to payments from the counterparty in the

event of changes in the value of a specified security. To the extent that the clients are long these securities, the clients are exposed to the risk of default by that counterparty.

*Correlation Risk Associated with Investments in ETFs.* A number of factors may affect an ETF's or leveraged ETF's ability to achieve a high degree of correlation with its benchmark index and there can be no guarantee that such fund will achieve a high degree of correlation. Failure to achieve a high degree of correlation may prevent the ETF or leveraged ETF from achieving its investment objective. The risk of a leveraged ETF not achieving its daily investment objective will be more acute particularly during periods of higher index volatility. This effect becomes more pronounced over time as volatility increases.

### Leverage

As noted in above, the Adviser will utilize a substantial degree of leverage in its investment strategy. The concept of leverage involves the use of debt to finance purchases of securities and manifests itself in different ways within a client's portfolio. This results in the client controlling substantially more assets than the client has equity. Leverage increases the client's returns if the client earns a greater return on investments purchased with borrowed funds than the client's cost of borrowing such funds. However, the use of leverage exposes the client to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the client not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the client's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the client's assets, the client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

The Adviser on behalf of its clients has the ability to borrow funds "on margin" from brokers for the purchase of equity securities. These are transactions that involve an initial cash requirement representing a given percentage of the underlying security's value. The Adviser's purchases of securities may be financed through repurchase agreements with banks, brokers and other financial institutions which involve the transfer by the client of the underlying security in return for cash proceeds based upon a percentage of the value of the security. Notwithstanding the foregoing, in an unsettled credit environment, the Adviser may find it difficult or impossible to obtain leverage for the client. In such event, the Adviser could find it difficult to implement its strategy.

The Adviser's clients face risks due to leverage in the event that its securities decline in value. In this event, clients could be subject to a "margin call" or "collateral call", pursuant to which the client must either deposit additional funds with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the Adviser being forced to unwind the client's positions quickly and at prices below what the Adviser deems to be fair value for such positions.

To the extent that options, swaps, swaptions and other “synthetic” or derivative financial instruments are used, it should be noted that they inherently contain much greater leverage than a non- margined purchase of the underlying security, commodity or instrument. This is due to the fact that generally only a very small portion (and in some cases none) of the value of the underlying security, commodity or instrument is required to be paid in order to make such investments. In addition, many of these products are subject to variation or other interim margin requirements, which may force premature liquidation of investment positions.

### Hedging Transactions

The profitability of the Adviser's investment strategy may depend in part on successful use of hedging techniques to attempt to control risk. It is possible that hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged. Hedges are often more difficult to implement than many other types of transactions. In addition, a position may be hedged against one type of risk, but not against other types of risk associated with the position. The Adviser may lose the ability to hedge a particular position, which may cause the client to have undesired exposure to that position and may lead to liquidation of that position at a time that is disadvantageous to the client. Moreover, positions which are established will typically not be fully hedged, or may not be hedged at all. In some instances, during the process of setting up a hedged position, the position may remain temporarily unhedged for a significant period of time. Notwithstanding the foregoing, the Adviser is not obligated to hedge the client's portfolio.

### Short Sales

The Adviser engages in the short sale of securities as part of its trading strategy. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the client's portfolio. A short sale results in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed and results in a loss if the price of the securities sold short increases. A short sale involves a finite opportunity for appreciation but the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss.

To sell short, the Adviser borrows and then sells a security that it is later obligated to return the security to the lender by a later purchase of the same security. It may be impossible for the Adviser to borrow securities at the most desirable time to conduct a short sale, particularly in illiquid securities markets. There can be no assurance that securities necessary to cover a short position will be available for purchase. When the Adviser engages in short sales in the United States, it must leave the proceeds thereof with the broker and must also deposit with the broker an amount of cash or U.S.

Government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law.

In addition, special rules, which differ from jurisdiction to jurisdiction, apply to short sales. For example, the Adviser may be prohibited from making short sales of certain securities at prices below the last sale price, which may prevent the Adviser from executing short sales of certain securities at the most desirable time. If the prices of securities sold short increase, the client may be required to provide additional funds or collateral to maintain the short positions. This could require the client to liquidate other investments to provide additional collateral. Such liquidations might not be at favorable prices. Further, the lender can request the return of the borrowed securities and the Adviser may not be able to borrow those securities from other lenders. This would cause a “buy-in” of the short position, which may be disadvantageous to the client.

### Non-U.S. Securities

Although the Adviser intends to focus primarily on U.S. securities, it may also invest in non-U.S. securities. Investing in securities of non-U.S. governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. The Adviser may try to hedge some of these risks by selling or buying currencies in the forward market, selling or buying currency futures contracts, options or other securities thereon, borrowing funds denominated in particular currencies, or any combination thereof, depending on the availability of liquidity in the hedging instruments and their relative costs. There can be no assurance that such strategies will be implemented, or if implemented, will be effective.

### Small Cap Securities

The Adviser may invest in small and/or unseasoned companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they lack the management experience, financial resources, product diversification, and competitive strengths of larger corporations. These factors make smaller companies far more likely than their larger counterparts to experience significant operating and financial setbacks that threaten their short-term and long-term viability.

In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. Some of these companies may be deemed to be

“penny stock” issuers or may be traded in the over-the-counter market, “pink sheets” or other less recognized stock exchanges. As a result, the securities of smaller companies may be subject to wider price fluctuations, and exiting investments in such securities at appropriate prices may be difficult, subject to substantial delay or impossible. When making large sales, the Adviser may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller company securities. While the Adviser believes the nature of the client's investments may reduce some of the risks associated with investing in less mature companies, such risks cannot be eliminated.

### Special Situations

The Adviser may have investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to the client of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Adviser may invest, there is a potential risk of loss by the client of its entire investment in such companies.

### Limited Liquidity of Investments

While the Adviser expects the vast majority of its clients' portfolios to be liquid, the Adviser may invest from time to time in thinly traded and relatively illiquid securities, securities that may not be traded at the time the Adviser invests, or securities that may cease to be traded after the Adviser invests. The Adviser also may take positions in particular securities that are relatively large as compared to trading volumes or overall market capitalization.

The Adviser also may invest in restricted securities that are subject to substantial holding periods or that are not traded in public markets. Restricted securities may be difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded. Such restricted securities may not be eligible to be traded on a public market even if a public market for securities of the same class were to exist or develop. It is highly speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets. In addition, although many of the securities which the Adviser may acquire may be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension could render it difficult or impossible for the Adviser to liquidate its positions and would thereby expose the client to losses.

If the Adviser were forced to rapidly divest these securities, as a result of withdrawals

from the Marathon Fund or any other private funds it may manage in the future or for other reasons, the Adviser may not be able to liquidate its client's investments promptly if necessary and might only be able to do so at disadvantageous prices. In addition, the Adviser's sales of thinly traded securities are likely to depress the market value of such securities and thereby reduce the client's profitability or increase its losses. Such circumstances or events could adversely affect the client's profitability.

#### Lack of Diversification

Although the Adviser has no investment restrictions with respect to types of securities, countries or industry sectors, clients' portfolios will not be diversified among geographic areas, types of securities, or a wide range of issuers or industries. Accordingly, clients' portfolio may be subject to more rapid change in value than would be the case if the Adviser were required to maintain a wide diversification.

A client's investment portfolio (on account of size, investment strategy and other considerations) may be confined to the securities of relatively few issuers. Clients are not required to maintain a minimum level of capital. If the Adviser fails to raise adequate capital for its clients that are private investment funds or incurs losses or withdrawals, it may not have sufficient funds to diversify its investments. If the Adviser concentrates its investments in several, relatively large securities positions or industries relative to its capital, a loss in any one position or downturn in any one industry could reduce the client's performance materially.

#### Portfolio Turnover

The Adviser may have higher portfolio turnover for its clients than other investment advisers. The Adviser's investments may be sold for a variety of reasons, such as a more favorable investment opportunity or other circumstances bearing on the desirability of a continued position in such investments. A high rate of portfolio turnover involves greater brokerage commissions and fees, which will be borne directly by the clients.

#### Convergence Risk

The Adviser may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying the Adviser's trading positions were to fail to converge toward, or were to diverge further from, the Adviser's expectations, the client may incur a loss.

#### Counterparty Risk

The Adviser effects transactions in "over-the-counter" or "interdealer" markets. Participants in these markets typically are not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. To the extent the Adviser invests in swaps, derivative or synthetic instruments, or other over-the-counter

transactions including forward contracts, or in certain circumstances, non-U.S. securities, the client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject the client to the risk that a counterparty will not settle in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Such “counterparty risk” is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of the Adviser to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to the client.

#### Brokerage and Custodial Risk

There are risks involved in dealing with the custodians or prime brokers who settle client trades. Marathon BD and the Marathon Fund maintain custody accounts with their prime broker and primary custodian, Merrill Lynch Professional Clearing Corp. (the “Prime Broker”). Although the Adviser monitors the Prime Broker and believes that it is an appropriate custodian, there is no guarantee that the Prime Broker, or any other custodian that a client may use from time to time, will not become bankrupt or insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of client assets, the client would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

The client, Adviser and/or the Prime Broker may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the client. The Prime Broker may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the client as a result of the bankruptcy or insolvency of any such sub-custodian. The client may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to the client. Under certain circumstances, including certain transactions where the client’s assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the Prime Broker, or where the client’s assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the client and the client could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial

activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of the client to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the client may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or time problems associated with enforcing the client's rights to its assets in the case of a bankruptcy or insolvency of any such party.

## **Item 9: Disciplinary Information**

The Adviser, its affiliates, and its employees have not been involved in any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel.

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

The Adviser acts as general partner of the Marathon Fund. The Adviser may purchase futures on behalf of the Marathon Fund and Marathon BD for hedging or other purposes. The Adviser has filed for an exemption from the Commodity Futures Trading Commission pursuant to Rule 4.13(a)(3) under the Commodity Exchange Act with respect to its role as commodity pool operator for the Marathon Fund and Marathon BD.

Marathon BD, a registered broker-dealer, is wholly-owned by the Marathon Fund as its sole member. The Adviser is the general partner of the Marathon Fund. The Principals as well as the following employees of the Adviser and its affiliated entities are registered representatives of Marathon BD: Matthew Friedman, Eli Adler, Jonathan Noeldechen, Stephen Haller, and Lan Ho. Marathon BD has no clients but instead trades on behalf of its sole member, the Marathon Fund. Marathon BD acts as a market-maker on the Chicago Board of Options Exchange (CBOE). While the Adviser does not expect material conflicts as the general partner of the sole member of Marathon BD, if the Adviser adds additional clients in the future, the Adviser has policies and procedures in place to assess, manage and avoid conflicts of interest that may arise. Marathon BD will not trade on behalf of any other client managed by the Adviser.

The Adviser may enter into side letter agreements with prospective or existing investors with respect to their investment in the Marathon Fund or any other private investment fund it may manage in the future. These side letter agreements may convey special redemption rights relating to frequency or notice, fee or redemption penalty waivers or rebates as specified in the governing agreement, among other preferential terms. Other rights and privileges conveyed in side letter agreements include the signatory's right to receive reports on a more frequent basis or to receive more detailed information with respect to portfolio positions. These modifications are solely at the discretion of the Adviser and may be based on the size of the investor's account or an agreement to maintain a certain size for a significant period of time or other similar commitment. Under no such arrangement will the Adviser abrogate its fiduciary duty to disclose and



responsibly manage all known current and emergent conflicts of interest.

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

The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser and its supervised persons to put the interests of the Adviser’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. In addition to compliance with the Adviser’s policies and procedures, all of the Adviser’s personnel are required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code of Ethics by contacting Robert Gordon (the Adviser’s Chief Compliance Officer) via email at [rgordon@marathontradingllc.com](mailto:rgordon@marathontradingllc.com).

The Adviser recognizes that personal trading by its supervised persons may create conflicts of interest with the Adviser’s clients, particularly if such supervised persons are trading in the same securities owned by, or being researched on behalf of, clients. For the purposes of the Code, supervised person accounts include accounts maintained by spouses, minor children, immediate family members that live in an employee’s household, persons that the employee provides with their primary financial support and entities that the employee has a 25% or greater beneficial interest in. Therefore, the Code requires all supervised persons to obtain prior written approval for all trades from the Chief Compliance Officer (subject to certain exceptions, for open end mutual funds, non-discretionary trades and other situations where such personal trade is not likely to cause conflicts with the Adviser’s trading on behalf of its clients). The Chief Compliance Officer may deny permission to execute the transaction for any reason including excessive personal trading, if such transaction is in a client account or is likely to become the target of a client transaction, or if such transaction will have any adverse economic impact on one of its clients and other reasons.

The Adviser’s related persons are required to disclose their securities transactions on at least a quarterly basis and holdings on an annual basis either through certifications or by providing copies of monthly or quarterly brokerage statements. The Adviser maintains a record of all trading and account information for covered persons. Trading by employees is reviewed by the Chief Compliance Officer and compared with transactions for the client accounts. The Chief Compliance Officer’s personal trades are reviewed by a designated officer of the Adviser or an outside third party to avoid self-review.

The Adviser and its related persons may invest their personal funds in certain clients, and, therefore, such persons may hold the same securities as other investors in the clients. The Principals own a majority of the capital in the Marathon Fund and other supervised persons of the Adviser are invested in the Marathon Fund.

The Adviser and its supervised persons may give and/or receive gifts, services or other items to/from any person or entity that does business with or potentially could conduct business with or on behalf of the Adviser. The Adviser has adopted policies and

procedures governing gifts and business entertainment, which includes pre-clearance by the Chief Compliance Officer prior to giving/receiving gifts above a certain de minimis threshold.

## **Item 12: Brokerage Practices**

### *Broker Selection*

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to, reputation, financial strength and stability, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, research (including economic forecasts, fundamental and technical advice on securities, valuation advice on market analysis); custodial and other services provided for the enhancement of the Adviser's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or a series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. The Adviser may not always negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Compliance Officer and Principals will meet at least annually to evaluate the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

### *Best Execution*

The Adviser has a duty to obtain "best execution" for the Adviser's clients' securities transactions. To fulfill this obligation, the Adviser generally must execute securities transactions in such a manner that the client accounts' total cost or proceeds in each transaction are the most favorable under the circumstances. In deciding what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution. In seeking best execution, the Adviser considers, among other things, the full range of the broker's services, total cost, and their experience executing trades in the markets the Adviser trades in. The SEC has indicated that an investment manager need not solicit competitive bids on each transaction. The Adviser uses numerous brokers to execute its securities transactions. The Adviser evaluates best execution on at least an annual basis.

### *Trade Aggregation and Allocation*

It is the Adviser's practice to not aggregate, even when possible, client orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker. Rather, the Adviser places client trades on an

individual basis and does not attempt to group orders for multiple clients for the same security and type of trade in a single, combined order. Because the Adviser does not engage in the practice of aggregating client orders, clients may not receive the potential benefits of aggregation, such as lower commission rates and favorable pricing. As a result, the client may pay a higher commission rate and receive less favorable prices than if the Adviser aggregated client orders.

If a security or cash instrument is suitable for multiple clients' investment objectives or strategies, transactions will generally be allocated across such clients based on a variety of factors including the client's investment objective and strategies; whether the client has the ability to act as a market maker if it is an owner of a registered broker-dealer; their risk profile; their tax status; any restrictions placed on a client's portfolio by the client or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended); the size of client account; total portfolio invested in the position; nature of the security to be allocated; size of available position; supply or demand for a security at a given price level; current market conditions; timing of cash flows and account liquidity; and any other information determined by the Adviser to be relevant to the fair allocation of investment opportunities. Taking into account these factors, the Adviser will make trade allocation decisions in a manner that ensures overall fair and equitable treatment of all clients over time.

### *Soft Dollars*

The Adviser, as investment adviser to the New Fund, does receive research or other products or services other than execution from broker-dealers in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's Chief Compliance Officer will periodically review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services can raise a conflict of interest where the Adviser would otherwise be obligated to pay for the products and services itself. While this is not currently the case, in the future this may create an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

#### *Trade Errors*

In the event that clients incur a trade error as a result of the Adviser's gross negligence, willful misconduct, or fraud, trade errors will be corrected by the Adviser as soon as practicable. It is the policy of the Adviser that this resolution will be implemented in a manner that does not entail a client account bearing any economic disadvantage. Trade errors that are a result other than by breach of the standard of care stated above will be borne by the clients.

#### *Agency Cross Transactions*

As a matter of policy, the Adviser will not engage in agency cross transactions. An agency cross transaction occurs when the investment adviser acts as broker for the advisory client and the other party to the trade.

#### *Directed Brokerage*

Advisory clients may request to direct their advisers to execute all or a portion of their portfolio transactions with a chosen broker-dealer. This practice is known as "directed brokerage." As a matter of policy, the Adviser does not maintain directed brokerage arrangements with clients. The Adviser will not accept a future directed brokerage arrangement without specific approval and procedures instituted by the CCO, which must include disclosure of all risks to the client as required by SEC guidance. The Adviser's decision to accept any such arrangement would be conditioned upon such directed brokerage not materially undermining the Adviser's ability to provide best qualitative execution for these clients.

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

Messrs. Peter Viscardo and Robert Gordon, the Portfolio Managers, are aware of the

holdings in each client's account on a continuous basis. These holdings are monitored by Messrs. Viscardo and Gordon in light of trading activity and other activities which may dictate a change in portfolio positions.

Investors in the Marathon Fund receive reports from the Marathon Fund's administrator pursuant to the terms of its offering documents.

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

The Adviser does not receive any monetary compensation or any other economic benefit from a non-client for the Adviser's provision of investment advisory services to a client.

The Adviser has not entered into contractual marketing arrangements to compensate third-party solicitors for client referrals but may do so in the future. In such event, where applicable, these client solicitations will be structured to comply with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

#### **Item 15: Custody**

Custody occurs when an adviser or related person directly or indirectly holds client funds or securities, or has the ability to gain possession of them. The Adviser is deemed, in accordance with the Advisers Act, to have custody of the assets of the Marathon Fund for which it serves as general partner. Marathon BD, an affiliate of the Adviser, is deemed to have custody of the assets of Marathon BD.

The Adviser maintains policies and procedures to comply with the requirements of Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). Securities and funds of Marathon Fund and Marathon BD, and any future pooled investment vehicle clients are or will be held with a qualified custodian and subject to an independent annual audit in order to meet the requirements of the Custody Rule.

#### **Item 16: Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to the Marathon Fund and Marathon BD. Except for the general investment guidelines set forth in the Marathon Fund's offering documents and investment management agreement, there are no limitations on the discretionary authority of the Adviser. The Adviser has the authority to determine: (i) the securities to be purchased and sold for the client account; and (ii) the amount and price of securities to be purchased or sold for the client account.

#### **Item 17: Voting Client Securities**

The Adviser maintains proxy voting authority over all client accounts. The Adviser has adopted policies and procedures to ensure that if it is in the best interest of a client to vote its proxies, such proxies are voted in the best interests of such client. The Adviser acknowledges that proxy voting is an important right of shareholders and that reasonable care and diligence must be undertaken to ensure that such rights are appropriately exercised on behalf of the Adviser's clients. Notwithstanding the foregoing, the Adviser strongly believes that the trading frequency (and corresponding short holding periods, frequently changing position sizes and changing position directionality) of the securities targeted by the investment strategies employed by the Adviser on behalf of the Marathon Fund (including those employed by Marathon BD) significantly reduce the importance and usefulness of voting proxies for such securities. Voting (or in certain circumstances, not voting) proxies is determined on a case-by-case basis taking into account those factors deemed relevant by the Adviser, including the above, which may result in different voting results for proxies for the same issuer or result in the Adviser voting proxies for some clients while not voting proxies for other clients. Clients may obtain a copy of the Adviser's proxy voting policies and procedures upon request.

## **Item 18: Financial Information**

This Item is not applicable.