

## Investment Adviser Brochure

# Trajectory Asset Management LLC

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**This Brochure provides information about the qualifications and business practices of Trajectory Asset Management LLC (“Trajectory”). If you have any questions about the contents of this Brochure, please contact us at 212.755.5072 or [juan.ocampo@trajectoryfunds.com](mailto:juan.ocampo@trajectoryfunds.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

## **Item 2 – Material Changes**

Kim Erle, Managing Director, Chief Compliance Officer, Chief Financial Officer, and Chief Operating Officer, left the firm on January 31, 2015. Juan Ocampo, Managing Director, Chief Executive Officer, and Chief Investment Officer, assumed these roles. Marita Ben Ari, CFA, rejoined the firm on February 9, 2015 with the title of Vice President. There are no other material changes since the last annual update of this brochure on March 2, 2014.

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#### **Item 4 – Advisory Business**

Trajectory Asset Management LLC ("Trajectory"), the registered investment advisory firm, is a Delaware Limited Liability Company formed in 2003. Trajectory is a wholly owned subsidiary of Demand Insights LLC, whose sole owner is Juan M. Ocampo.

Trajectory provides investment supervisory services to institutional clients. This includes:

- Service as a subadvisor to registered investment companies, including the SunAmerica Specialty Series' 2020 High Watermark Fund (the "Fund"); and
- Offering separate account advisory services, including the Currency Regime Strategy and the Equity Regime Strategy (the "Separate Accounts").

In providing investment supervisory services, Trajectory employs proprietary investment methodologies that are grounded in quantitative analysis. These methodologies seek to manage investment risks while providing an opportunity for income and/or capital appreciation as appropriate. Accounts are managed on a discretionary basis and may be subject to the general oversight of another unaffiliated investment adviser.

For some clients, including its mutual fund subadvisory services, Trajectory employs a form of its proprietary methodologies ("Trajectory High Water Methodology") in providing investment management services for collective investment vehicles that may contain a financial guarantee or protection (achieved through insurance or similar products, such as a put or swap, with an insurance company or insurance company affiliate) of the highest net asset value per share, adjusted for dividends, distributions and extraordinary expenses, achieved over a specified term.

Trajectory may tailor its advisory services to the individual needs of its institutional clients, as defined within its Investment Management Agreements with such clients. Clients may impose restrictions on investing in certain currencies, security types and individual securities. For example, the Funds may only invest in certain U.S. government securities, as described in the Fund's prospectus, and the Separate Accounts may invest only in an approved list of currencies, equity index derivatives and/or equity volatility index derivatives.

As of February 28, 2015 Trajectory manages client assets of \$58 million on a discretionary basis. Trajectory does not manage client assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

The specific manner in which investment advisory fees are charged by Trajectory is established in a client's written agreement with Trajectory and is negotiated with the institutional client. Trajectory generally bills its fees on a monthly or quarterly basis. Management fees are prorated for each capital contribution and withdrawal made during the applicable calendar month or quarter as specified in the investment advisory agreement with the institutional client. Accounts initiated or terminated during a calendar month or quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable and any prepaid fees will be refunded.

Trajectory's investment advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge investment advisory fees payable to the unaffiliated investment adviser, which are disclosed in a fund's prospectus. Trajectory's advisory fees are paid out of a portion of these fees.

Such charges, fees and commissions are exclusive of and in addition to Trajectory's investment advisory fee, and Trajectory does not receive any portion of these commissions, fees, and costs.

The Subadvisory Agreement with the Fund may be terminated by the Fund's shareholders or the Fund's board of directors on 60 days notice to Trajectory. Separate Account agreements are terminable on short notice specified in the agreement.

For advisory services to separate accounts, Trajectory receives advisory fees reflecting a specified percentage of the account value calculated on a monthly or quarterly basis and payable in arrears. Since Trajectory has a limited number of customized separate account relationships fees are negotiated based on the services to be provided and vary.

Item 12 further describes the factors that Trajectory considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

In some cases, Trajectory has entered into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each such client. Trajectory will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, Trajectory will include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for Trajectory to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Trajectory currently has no accounts managed using the same investment strategies which are charged differently with respect to performance fees (i.e., no side-by-side management of similar accounts). Trajectory has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent performance fee conflicts from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

Trajectory provides investment supervisory services on a subadvised basis to registered mutual funds (e.g., the Fund) and other pooled investment vehicles (e.g., the Separate Accounts) for institutional clients.

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

Trajectory employs one of two proprietary investment strategies in managing client assets: the High Watermark Strategy and the Risk Premium Regime Model Methodology.

### **High Watermark Strategy**

Trajectory employs its proprietary High Watermark Strategy in managing the Fund. The Fund seeks to generate capital appreciation by dynamically allocating its portfolio exposure to U.S. equity markets (consisting of exchange traded S&P 500 Index futures and options on these futures or options on the index) and to U.S. fixed income markets (consisting of U.S. government securities, primarily STRIPS and other zero-coupon securities, and money market instruments).

Exposures to both markets are managed to minimize the risk of loss of principal and investment gains over the life of the Fund and to become generally more conservative (that is, less exposed to equity markets) as the Fund's maturity date approaches. Under normal market conditions, the Fund will initially seek significant equity exposure and relatively long duration fixed income exposure and will be managed such that, as its maturity date approaches, Fund holdings are increasingly devoted to high-grade, short-term fixed income securities.

Trajectory implements its proprietary strategy through a disciplined quantitative investment approach that seeks to maximize prospects for capital appreciation while attempting to preserve investment gains and controlling investment risk, particularly the risk of a shortfall between the Fund's protected high watermark value and its actual NAV per share on its protected maturity date.

### **Risk Premium Regime Model Methodology**

Trajectory's Risk Premium Regime Model methodology provides forward forecasts of investor risk preference. The model harnesses mathematical disciplines that are used by physical scientists in modeling the behavior of complex systems, and interprets risk pricing information gleaned from several markets. Among other things, this supplies us with information relating to the likelihood that markets will be generally risk seeking or risk averse and whether implied volatility is biased towards expansion or contraction over the forecast period. Trajectory employs the Risk Premium Regime Model methodology in managing the Separate Accounts.

The Risk Premium Regime Model methodology follows a disciplined three step approach: (1) regime identification, (2) fundamental and technical assessment and (3) portfolio construction.

(1) Regime Identification. Trajectory seeks to identify which risk preference regime is most likely over the next 1-30 days.

(2) Fundamental and Technical Assessment. Trajectory analyzes a set of fundamental factors such as, but not limited to, Fundamental factors (Macro Economic Indicators (both hard and soft data)); Fiscal and Monetary Policies; Valuation Indicators (P/E of stocks and yield structure of bonds); and Technical factors such as, but not limited to, Relative Strength Index, Moving Average Convergence Divergence, VIX Term Structure, Future Open Interest and Call/Put Option Imbalance.

(3) Portfolio Construction. Trajectory constructs portfolio positions that attempt to maximize the expected return on risk, and which seek to reflect our views on fundamental prospects, technical factors and regime forecasts.

## Important Considerations

*There can be no assurance that Trajectory will achieve the investment objective of any strategy and investing in securities and other investments involves risk of loss that clients should be prepared to bear.*

Risks in connection with the Trajectory High Water Mark Methodology include:

*Opportunity Costs.* Opportunity costs involve the likelihood that the Fund's equity exposure drops to a low level or is eliminated altogether during periods of low interest rates or declining equity markets. This would reduce the Fund's ability to participate in upward equity market movements, and therefore, represents some loss of opportunity compared to a portfolio that is fully invested in equities. In addition, the terms of the master agreement (between the SunAmerica Specialty Series trust, on behalf of the Fund, and Prudential Global Funding, LLC ("PGF"), under which PGF will pay to the Fund any shortfall between the protected high watermark value and the actual NAV per share on the Fund's protected maturity date, provided certain conditions are met) prescribe certain investment parameters within which a Fund must be managed during the investment period to preserve the benefit of the master agreement. Accordingly, the master agreement could limit the Adviser's ability to alter the allocation of Fund assets in response to changing market conditions. The terms of the master agreement could require the Fund to liquidate an equity index futures position when it otherwise would not be in the shareholders' best interests. Under certain circumstances, the master agreement may also require all of the Fund's assets to be invested in fixed income securities.

*Interim Redemption Risk.* Investors can realize significant losses if they redeem their shares before the Fund's protected maturity date due to the possibility of a shortfall between the protected high watermark value that investors earn if shares are held to the Fund's protected maturity date and the actual NAV of Fund shares on the date of redemption. This shortfall could be more pronounced in an environment of rising interest rates or a declining stock market.

*Early Closure Risk.* An early closure condition is a circumstance where the Adviser allocates all of the Fund's assets to fixed income securities and/or the yield on the fixed income portfolio is insufficient to cover the Fund's operating expenses in which case the Fund will close to new investments. If an early closure condition occurs in the judgment of the Adviser, the Fund will close to new investments, though a new fund with the same protected maturity date may be established to accept new contributions.

*Early Termination Risk.* Under the master agreement, if certain low interest rate conditions occur and the Fund is within three years of its initial protected maturity date, the Fund can terminate early. If the Fund terminates early under these circumstances, the Fund's



protected high watermark value will be accelerated and shareholders will receive the benefit of the protected high watermark value. If the Fund was to terminate before the Fund's protected maturity date (an early fund termination) and the Trust's Board of Trustees determine to liquidate the Fund, an investor would have to locate an alternative investment for his or her assets until the otherwise scheduled protected maturity date, which could involve transaction expenses.

*Risk of Exposure to Both Equity and Fixed Income Markets.* Because the Fund participates in both the equity and debt markets, the Fund may underperform stock funds when stocks are in favor and underperform bond funds when stocks are out of favor.

For additional risks, please refer to the High Watermark Funds prospectus and SAI.

Risks in connection with the Risk Premium Regime Model Methodology include:

*Exchange Rate Fluctuations.* Foreign currency values will fluctuate relative to the US dollar and relative to one another. The Currency Regime Strategy may invest in multiple foreign currencies, some of which may decline in value.

*Equity Market Risk.* Equity index values will fluctuate. The Equity Regime Strategy may invest in equity index derivatives, which provide exposure to changes in the underlying value of equity markets. Risk of loss is possible.

*Equity Volatility Index Risk.* Equity volatility index values will fluctuate. The Equity Regime Strategy may invest in equity volatility index derivatives, which provide exposure to changes in the underlying value of the equity volatility index. Risk of loss is possible.

*Counterparty Risk.* The Currency Regime Strategy invests in over-the-counter (OTC) foreign exchange forward and option contracts. The counterparty is not an exchange or regulated market.

*Leverage.* Portfolios invested according to the Risk Premium Regime Model methodology may involve significant leverage, which may magnify losses when a portfolio holding declines in value.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Trajectory or the integrity of Trajectory's management. Trajectory has no information applicable to this Item.

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

From time to time, the Adviser may provide, through an affiliate, management consulting services. Consulting services are generally performed on a project fee basis based on the expected scope of the project. Trajectory may perform consulting services for large financial services firms that provide services to or have contractual relationships with advisory clients, which could create a potential conflict of interest. However, Trajectory's services are usually of limited duration and for business lines that would not directly have a contractual relationship with any client.

## **Item 11 – Code of Ethics**

Trajectory and its personnel may buy or sell the same securities or other assets that are bought or sold for clients subject to Trajectory's Code of Ethics (the "Code of Ethics"), which was adopted under Rule 17j-1 of the Investment Company Act of 1940 and updated to comply also with Rule 204A-1 under the Investment Advisers Act of 1940, effective February 1, 2005. The Code of Ethics, which is described below, governs the personal trading activities of all "Access Persons." As defined in the Code of Ethics, "Access Persons" include all directors, officers, and employees of Trajectory, as well as certain control persons of Trajectory who have access to information regarding the purchase or sale of client securities.

The Code of Ethics is based upon the principle that Access Persons have a fiduciary duty to place first the interests of clients, including shareholders of the Funds, and it sets forth standards of conduct applicable to all Access Persons. The Code of Ethics requires all Access Persons to comply with applicable federal securities laws.

The Code of Ethics permits Access Persons to buy or sell securities for their own accounts, including securities that may be purchased or held by the Funds, subject to certain exceptions. The Code of Ethics requires all Access Persons to complete initial and annual securities holdings reports and quarterly transaction reports, acknowledge receipt of the Code of Ethics and certify annually that they have complied with the Code of Ethics. The Code of Ethics requires preclearance of many securities transactions. The Code of Ethics also places other limitations on the acquisition of securities by Access Persons, including a ban on acquiring securities in an initial public offering or a private placement of securities without advance approval from the Chief Compliance Officer, and a prohibition on profiting from short-term trading in covered securities, including shares of the Funds.

Trajectory will provide a copy of the Code of Ethics to any client or prospective client upon request.

## **Item 12 – Brokerage Practices**

For certain advisory clients, Trajectory has investment and/or brokerage discretion.

Trajectory may buy or sell securities on its clients' behalf, including through using a broker-dealer. If Trajectory buys or sells publicly traded securities for the Fund or separate account clients for which it retains brokerage discretion, it is responsible for directing orders to broker-dealers to effect those securities transactions. In selecting brokers, Trajectory generally selects brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, Trajectory may consider a variety of factors, including: (i) prompt execution of orders, (ii) the reliability, integrity, financial condition and execution capability of the firm being considered for effecting transactions in light of the size and difficulty of executing the order, (iii) the price and (iv) the capabilities of firms to supply research services. For some institutional clients, the client may direct Trajectory to use brokers or counterparties, including affiliated broker-dealers or counterparties for trades. In such situation, Trajectory is not responsible for achieving best execution although it would generally agree to such arrangements when Trajectory believes they are not opposed to the client's interests. In such situation, the commissions or execution may be less favorable than if Trajectory were exercising full discretion.

Trajectory has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to minimize the expenses incurred for effecting client transactions to the extent consistent with the interests and policies of the accounts. Although Trajectory generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with obtaining best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them. Such research services include economic research, market strategy research, industry research, company research, fixed income data services, computer based quotation equipment and research services, and portfolio performance analysis. As a general matter, research provided by

these brokers may be used to service all of Trajectory's clients. However, each and every research service may not be used for the benefit of each and every account managed by Trajectory, and brokerage commissions paid by one account may apply towards payment for research services that might not be used in the service of that account.

There is no agreement or formula for the allocation of brokerage business on the basis of research services. Trajectory may, in its discretion, cause the client accounts to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where Trajectory has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, Trajectory would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

Trajectory will periodically determine which brokers have provided research that has been helpful in the management of client accounts. To the extent consistent with Trajectory's goal to obtain best execution for its clients, Trajectory seeks to place a portion of the trades that it directs with the brokers who are identified through this process. Trajectory is able to furnish a continuous investment program to its clients by using information provided by broker-dealers as well as other research. Trajectory considers access to such information to be an important element of investment decision making.

Orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for client accounts are completed independently, Trajectory may also purchase or sell the same securities or instruments for a number of accounts simultaneously. From time to time Trajectory may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating client of Trajectory is favored over any other client. When an aggregated order is filled in its entirety, each participating client account generally will receive the average price obtained on all such purchases or sales made during such trading day. When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each client account participating in such buy or sell order in accordance with the amount of securities originally requested for such account. Each client account generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to clients over time.

### **Item 13 – Review of Accounts**

Trajectory's portfolio management team reviews client accounts on an ongoing basis in accordance with their investment objectives, policies and restrictions, including where applicable the terms of any financial guaranty of the high water mark per share or other guidelines established by a client.

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

Registered investment advisers are required to disclose all material facts regarding any other client referral or other compensation arrangements that would be material to your evaluation of Trajectory or the integrity of Trajectory's management. Trajectory has no information required to be discussed in this Item.

### **Item 15 – Custody**

Trajectory does not have custody of client securities or funds.

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

Trajectory usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Trajectory observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Trajectory's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. For the Fund, Trajectory will also be subject to the restrictions contained in the guaranty.

Investment guidelines and restrictions must be provided to Trajectory in writing.

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

Trajectory does not vote proxies on behalf of clients due to (1) certain clients retaining any proxy voting authority to the client (or its primary adviser) or (2) the permitted assets used in managing client assets consisting solely of governmental fixed income securities, futures and other assets that are not voting securities.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Trajectory has no matters requiring disclosure under this item.