

Peritus Asset Management, LLC

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of Peritus Asset Management, LLC (“Peritus”). If you have any questions about the contents of this brochure, please contact us at 805-882-1100, ext. 612. 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 Peritus is also available on the SEC’s website at: www.adviserinfo.sec.gov. Registration with the SEC does not imply a certain level of skill or training.

Material Changes

Peritus' last annual update to Part 2A of Form ADV was made in March 2014. Peritus' business activities have not changed materially since the time of that update.

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Advisory Business

Peritus Asset Management is an employee owned, SEC registered, investment adviser headquartered in Santa Barbara, California. Founders and principal owners Tim Gramatovich and Ron Heller began their partnership in 1995. Peritus takes a value based, active credit investment approach and provides services to the institutional and retail markets.

Peritus capitalizes on opportunities in the corporate bond and loan market, with a focus on the non-investment grade asset class. We generally target securities that offer what we view as a high current yield and have the potential to generate capital appreciation. These bonds, loans, and dividend paying equities are principally sourced from the public, secondary market.

We believe that our value based approach is distinctive and that we add value for our clients via our extensive credit work, internally generated research, and active trading. Peritus manages traditional separate accounts, pooled assets, and structured product portfolios, e.g. Peritus is the manager of the first actively managed High Yield ETF, HYLD, allowing investors to participate in our asset class in a way that meets their needs. We have an experienced portfolio management team, with our core members having on average over eighteen years each of experience in managing high yield corporate bonds. Peritus does not manage assets on a non-discretionary basis. As of March 26, 2015, Peritus managed \$459.9MM on a discretionary basis.

For Separately Managed Accounts (SMAs), Peritus has the client/account sign Peritus' Investment Management Agreement that outlines the responsibilities of both Peritus and the client/account. The Client's financial circumstances, investment objectives and any special instructions or limits that the Client wishes Peritus to follow in advising the Client will be described in the "Investment Guidelines" to be prepared by the Client. A copy of the Investment Management Agreement can be obtained by contacting Peritus at www.peritusasset.com. Institutional clients execute Peritus' Investment Management Agreement and they have separate Investment Manager Guidelines they provide and update on an annual basis.

Fees and Compensation

Peritus has the following fee structure based on the current product/service offerings of separately managed accounts, Structured Products and our ETF:

- ETF – HYLD - \$0.75 (This is Peritus' portion of the overall management fee)
- Structured Products - \$0.75
- Separate accounts – Negotiable depending on size and return profiles - \$0.75 - \$1.50

Our actively managed ETF, HYLD, has a fee structure of 120 basis points. That fee will go down slightly as AUM increases in the fund. The trustee for HYLD generates a monthly management fee calculation from which Peritus receives its share. That fee is communicated to Peritus via email and the funds are then wired to our account. Clients who have SMA accounts with Peritus, and whose accounts are invested in shares of HYLD, do not pay a separate management fee to Peritus. Peritus only receives the fee from HYLD.

For separately managed accounts, Peritus generally charges fees quarterly in advance based on the account value at the beginning of the prior quarter. In some cases, institutional clients request that Peritus charges fees in arrears based on the account value at the end of the prior quarter. Most clients authorize Peritus to deduct fees automatically from their brokerage accounts, but clients may request that Peritus send quarterly invoices to be paid by check. Institutional SMA accounts that are not invested in HYLD, due to constraints based in their Investment Manager Guidelines, are invoiced quarterly by Peritus. The invoice is presented by the account for review and approval and then submitted to the custodian of the account for payment. Fees are negotiable.

If a client terminates the investment management agreement with Peritus in the middle of a billing period, Peritus will invoice the client for an amount that is pro-rated based on the number of days that the account was managed or will credit back to the client the pro-rated amount depending on the billing arrangement.

In addition to Peritus' investment management fees, clients typically bear custodial and transaction fees on ETF trades. Trading costs for loans and bonds are typically a quarter of a point per bond collected by the brokers in the spread between the buyer and the seller. Stock trades are typically \$0.02 commission on trades of \$5 or more and \$0.01 on trades under \$5. Please refer to the Brokerage Practices section of the brochure for further information on Peritus' brokerage practices. To the extent that clients' accounts are invested in structured products, or ETFs, these funds pay a separate layer of management, trading, and administrative expenses. In addition, structured products are subject to incentive fees that are outlined in the prospectus.

Performance Based Fees and Side-by-Side Management

Peritus has utilized performance fees in prior investment vehicles that are payable at the end of the term of the vehicle assuming returns are greater than the stated hurdle rates noted in each vehicle's prospectus. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, Peritus feels any apparent conflicts of interest are not an issue; rather, the varied pricing structures are a means of meeting the distinct needs of each investor group.

Peritus is paid from management fees that are either invoiced to the client and paid in arrears, or are calculated by the fund trustee on a monthly basis and paid to Peritus by the fund. Peritus does NOT receive any fees from commissions or markups, and in the case where an SMA is invested in a fund where Peritus receives a fee, Peritus reduces the management/advisory fees to offset the any fee received by the fund or other investment vehicle. Peritus does NOT engage in the layering of fees.

Types of Clients

The style for each type of investment product is generally the same, high yield bonds, leveraged loans, and dividend paying equities. In the case of separately managed accounts, the overall account size may not allow for the use of loans in that particular strategy as loans cannot be broken up into small allocations, typically allocations have to be \$1M plus. Our separate accounts now are more institutional business oriented as we have moved all of our high net worth clients to our ETF. Some SMA/Institutional accounts may not be allowed to invest in an ETF as a restriction of their Investment Manager Guidelines. For example, an ETF may be viewed as a

single security without the benefit of looking through to the underlying securities in the fund. Investing in a single security is clearly a risky proposition and is not allowed.

Peritus' minimum account size is generally \$25,000,000, but this amount is negotiable. .

Methods of Analysis, Investment Strategies and Risk of Loss

Our focus is on the future prospects of the business we are effectively lending money to. As we look for prospective investments, we target credits that possess some or all of the following characteristics:

- Companies that have a product or service that is considered “essential” or recurring;
- Hard asset values that provide some support for the company's value;
- A manageable capital structure;
- A stable revenue stream and/or an adjustable cost structure;
- A company or industry that is out of favor for the wrong or temporary reasons;
- Excess liquidity

Furthermore, a primary area of consideration is the future free cash flow generating ability of the businesses we invest in. Our belief is that a business that can generate a true economic profit after expenditures (free cash flow) creates a margin of safety for our investment. This free cash flow is not the popular “EBITDA” or earnings before interest, taxes, depreciation and amortization; rather, free cash flow is defined as cash from operating activities less capital expenditures. While this process by itself is reasonably common among active credit managers, the key for us is in identifying what we see as undervalued securities which may provide more attractive yields than the indexes that represent these asset classes. To us, this involves acquiring securities with very low price to expectations, not just a higher yield.

Once we have identified a prospective credit, we begin our credit analysis.

- *Financial Analysis:* We begin by looking at the company's three major financial statements—the income statement, the balance sheet and the statement of cash flows—primarily focusing on the company's ability to generate cash flow (statement of cash flows) and the company's liquidity and capital structure sustainability (balance sheet).
- *Combined Approach:* In our investment analysis, we combine both “top-down analysis,” looking at the larger economic and industry dynamics, with “bottom-up” analysis that involves a thorough review and analysis of the company's financial filings, quarterly earnings conference calls, investor presentations, and other relevant documents. Relevant risk factors are identified and the company's ability to withstand these factors is assessed.
- *Valuation Analysis:* Peritus does not stop with traditional credit analysis that focuses on business fundamentals, but also undertakes an appraisal of the company's intrinsic value, determining the relative value of the various securities within the company's the capital structure.
- *Capital Structure Analysis:* Through our fundamental and valuation analysis, we not only determine whether an investment should be made in a certain company, but also where in the capital structure (secured, senior, or subordinate) we believe the risk/return is most attractive.
- *Trading Input:* Additionally, our traders are engaged in each step of the security selection process, working in conjunction with the analysts to effectively combine our expertise in

market technicals with credit fundamentals. Because much of what we do is not an “exchange traded” asset class, the ability to find, negotiate, and acquire bonds is a critical component to execution.

Prospective credits are approved by the credit committee. Once a credit is approved and purchased, we continue to monitor the individual names and the portfolio daily. Peritus’ primary goal is to hold an actively managed, diversified basket of securities that generates what we see as a significant tangible yield to the investor and allows for potential capital appreciation. Our preference and history is to hold approximately 50-100 securities in our portfolios, which we believe accomplishes our goals.

As an investor in our strategy/portfolio you are subject to risk, including the possible loss of principal amount invested. As a non-index based actively managed fund manager, this strategy may expose investors to greater market risk than if its assets were diversified among a greater number of issuers and/or sectors. High yield, lower rated bonds involve a greater degree of risk than investment grade bonds in return for higher yield potential. As such, securities rated below investment grade generally entail greater credit, market, issuer and liquidity risk than investment grade securities. Interest rate risk occurs when interest rates rise as bond prices usually fall. This strategy may not be suitable for all investors. Duration risk operates in a similar manner. As interest rates go up, longer duration loans and bonds are subject to greater downward pressure depending on the length of time to maturity. The shorter the duration to a maturity event, the less the duration risk. The longer the duration, the greater the duration risk and potential loss of principal.

A coupon is the interest rate stated on a bond when it's issued. Take-outs occur when a company decides to take out/refinance the bonds according to a scheduled price; poison puts reference the change of control from merger or buyout activity; tenders are company offers to buy a security at a set price. Duration measures (in years) the sensitivity of the price of a fixed-income investment to a 1% change in interest rates.

Disciplinary Information

Peritus and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client’s evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

Peritus does not believe that it and its employees have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

- Peritus has entered into an arrangement with certain entities advised by Magnetar Capital, a leading alternative asset manager, under which those entities are entitled to a passive participation in our management fee revenue.
- Peritus has also contracted the services of Foreside, a member of FINRA, and who is registered with the SEC as a broker dealer, to provide certain services with respect to the licensing of certain Peritus employees as registered representatives of a broker dealer for the purpose of 1) marketing funds to financial intermediaries, investment advisors and

individuals representing institutions (“Institutional Investors”), 2) discussing with such Institutional Investors Peritus’ investment strategies, and 3) any other customary activities as a registered representative of a broker dealer as permitted by the agreement with Foreside, and Peritus intends/has the option to compensate such employees for their activities in connection with the fund(s).

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

Peritus has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires Peritus and its employees to act in the clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Peritus’ restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household. A copy of Peritus’ code of ethics is available upon request.

Peritus’ employees are generally permitted to trade alongside client accounts as long as they receive the average price that is applicable to clients and pay their share of any transaction costs. However, no employees are allowed to participate in partially filled orders until all clients’ orders have been filled. The CEO and Chief Compliance Officer monitor employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

As it pertains to the fund, HYLD, that Peritus sub-advises:

When there are **ANY** creations and redemptions placed with Peritus, employees are restricted from trading shares in HYLD, **and/or securities held in the Fund**, for a period of **two** calendar days from the last date where creations or redemptions took place. Although ETF’s typically trade close to their NAV, large flows into or from an ETF can create pricing situations that can put the manager in an advantageous position that “could” affect the unit price of a share of the fund. This two day blackout trading period should alleviate this situation.

The filling of any SMA accounts still applies regardless of the blackout period. All client orders must be filled prior to the filling of any employee orders.

Regarding employee trading in any securities in the fund itself or securities that are on the fund watch list:

- Employee trading in names in the fund are allowed; however, only after trades are filled for SMA accounts and the Fund itself. To be clear, if the Fund has positions that have not been filled, the employee order **CANNOT** be filled. If the Fund receives Creates or Redemptions on any particular day, the employees order cannot be filled if the trading desk has targeted the securities in question for buying into the fund or selling from the fund. Only after all Fund requirements have been filled can an employee order be filled, buying or selling.
 - **UNDER NO CIRCUMSTANCES CAN AN EMPLOYEE PURCHASE SECURITIES THAT ARE ON THE FUNDS WATCH LIST.**

○ **UNDER NO CIRCUMSTANCES ARE THERE TO BE PRINCIPLE
TRANSACTIONS FOR THE FUND.**

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the CEO and CCO might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. In Peritus' experience, it is rare for an employee's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time.

Brokerage Practices

Peritus generally recommends that clients arrange for their assets to be held with Charles Schwab Advisor Services, Inc. ("Schwab"). Peritus chose Schwab because Peritus believes Schwab offers good services at competitive prices, especially as it pertains to dividend reinvestment fees for our clients holding our ETF product. Peritus does recommend that a client can choose their own custodian, and in fact some clients utilize other custodians.

Soft Dollar Benefits

Peritus currently does NOT generally receive any soft dollar benefits. However, as a part of our agreement with Schwab, Peritus believes that clients are receiving a cost savings benefit. Peritus does not maintain custody of our client's assets, although we may be deemed to have custody of our client's assets because we have been or may be given authority to withdraw assets from our client's accounts in order to pay management fees as outlined in our Client Management Agreements. Peritus is not affiliated with Schwab.

For our client's accounts that Schwab maintains, Schwab generally does not charge separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into Schwab accounts. Schwab's rates and fees applicable to our client accounts were negotiated based on our commitment to maintain \$10M of our client's assets statement equity in accounts at Schwab. We believe that the commitment benefits our clients because the overall rates and fees you may pay are lower than they would be if we had not made the commitment. In addition to rates and fees, Schwab may charge a flat dollar amount as the prime broker or trade away fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited /settled into our client's Schwab account.

Schwab Advisor Services (formerly called Schwab Institutions) is Schwab's business serving independent investment advisory firms like Peritus. They provide Peritus and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab may also make available various support services. Some of those services help us manage or administer our client's accounts while others may help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (Peritus does not have to request them) and at no additional charge to Peritus as long as Peritus keeps a total of at least \$10M of our client's assets

in accounts at Schwab. If Peritus has less than \$10M in client assets at Schwab, it may charge Peritus quarterly service fees of \$1,200.00. As of the submission of this year's ADV, no charge has been made to Peritus.

In addition, Peritus will abide by the following relative to any future soft dollar arrangements. In addition to execution quality, Peritus may consider the value of various research services or products, beyond execution, that a broker-dealer provides to Peritus or its clients. Selecting a broker-dealer in recognition of such other services or products is known as paying for those services or products with "soft dollars." The services furnished by a broker may benefit the Investment Manager in rendering investment services to all of its clients and may lead to a conflict of interest. Services furnished by a broker may be used for any or all of the clients of Peritus, and may be used in connection with accounts other than those which pay commissions to the broker providing the services.

For these purposes, "research" means advice, analysis and reports used to provide lawful and appropriate assistance to Peritus in making investment decisions for its clients. The types of research Peritus may acquire include reports on or other information about particular companies or industries; economic data such as unemployment reports, inflation rates or gross domestic product figures; recommendations as to specific securities; financial publications relating to the subject matter of Section 28(e) (*i.e.*, the value, availability or advisability of investing in securities, and issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts); portfolio evaluation services and financial database software and services. The types of brokerage services Peritus may use include execution clearing and settlement services, exchange of messages among brokers, custodians and institutions; and communication services related to the execution, clearing and settlement of securities transactions and other incidental services.

Peritus will make decisions involving "soft dollars" in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. That is, Peritus will generally determine, considering all appropriate factors (including those described here), that commissions paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. In making that determination, Peritus may consider not only the particular transaction, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in Peritus' performance of its overall responsibilities to all of its clients. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge. Additionally, in some cases, a client's transaction may be executed by a broker in recognition of services or products that are not used in managing that client's account. Broker-dealers are not excluded from a client's business simply because they have not provided research services or products.

Where a particular service or product that a broker or dealer is willing to provide for soft dollars has not only a "research" application, but it is also useful to Peritus for non-"research" purposes, Peritus may allocate the cost of the product or service between its "research" and non-"research" uses and pay only the "research" portion with soft dollars. Peritus' interest in making such an

allocation may differ from clients' interests in that Peritus has an incentive to designate as great a portion of the cost as “research” as possible in order to permit payment with soft dollars.

The Selection of Trading Counterparties

Peritus can typically trade accounts held at Schwab and Northern Trust using other broker/dealers. Unlike equities, the availability and pricing of bonds and loans varies more widely, so prior to placing a bond trade, Peritus solicits bids from several dealers and then executes the trade with the dealer that offers sufficient liquidity and the most favorable pricing.

In some instances, because of a prior relationship between a client and one or more brokers, or for other reasons, a client may instruct Peritus to execute some or all securities transactions for its account with or through one or more brokers designated by the client. In such cases, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such brokers and the client is satisfied with such terms and conditions. Peritus will assume no responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. The client must recognize that it may not obtain rates as low as it might otherwise obtain if Peritus had discretion to select broker/dealers other than those chosen by the client. Any client providing instructions to Peritus regarding direction of brokerage transactions must notify Peritus in writing if the client desires Peritus to cease executing transactions with or through any such broker/dealer.

Best Execution Reviews

Peritus will generally seek “best execution” in light of the circumstances involved in transactions. In selecting a broker for any transactions, Peritus may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Peritus will not obligate itself to obtain the lowest commission or best net price for an account on any particular transaction.

On at least an annual basis, Peritus' Chief Compliance Officer and other senior executives may evaluate the pricing and services offered by the various custodians and other trading counterparties with those offered by other reputable firms. Peritus has sought to make a good-faith determination that various custodians/broker dealers and other chosen trading counterparties provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by Peritus' receipt of products and services from various custodians/broker dealers. Historically Peritus has concluded that custodians/broker dealers it chooses are as good as, or better than, the other firms that have been considered.

Aggregated Trades

Peritus will perform investment management services for various clients. There will be occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase

or sell the same security for numerous accounts served by Peritus, some of which accounts may have similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they will be effected only when Peritus believes that to do so will be in the best interest of the affected accounts. When such concurrent authorizations occur, the objective will be to allocate the executions in a manner that is deemed equitable to the accounts involved.

Client Referrals

Peritus may also employ consultants to whom it will pay a flat consulting fee and/or solicitors to whom it will pay cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice will be disclosed in writing to the client and Peritus will comply with the other applicable requirements under Rule 206(4)-3, under the Investment Advisers Act of 1940, as amended. In particular, Adviser will ensure that associated persons provide clients with a current copy of Peritus' written disclosure statement and the solicitor's written disclosure document.

Review of Accounts

Accounts under Peritus' management are monitored on an ongoing basis by the Chief Executive Officer and the Chief Compliance Officer. The CEO and COO may review each account in detail on at least an annual basis, as well as in connection with each client meeting. Reviews of client accounts will also be triggered if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Clients receive account statements directly from their chosen custodian on at least a quarterly basis. Peritus may supplement these custodial statements with reports provided during client meetings or as requested.

Client Referrals and Other Compensation

Peritus does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients. Please see Brokerage Practices noted above.

Custody

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but Peritus can access many clients' accounts through its ability to debit advisory fees. For this reason alone, Peritus is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Peritus.

Investment Discretion

Peritus has investment discretion over all clients' accounts. Clients grant Peritus trading discretion through the execution of a limited power of attorney included in Peritus' advisory contract.

Clients can place reasonable restrictions on Peritus' investment discretion.

Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, Peritus has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Peritus receives will be treated in accordance with these policies and procedures.

Peritus has not identified any material conflicts of interest in connection with past proxy votes. Such a conflict could arise if, for example, a client was a senior executive with a publicly traded company and other clients held securities issued by that company. Absent specific client instructions, if Peritus identifies a material conflict of interest it will follow the voting recommendation of the independent corporate governance consulting firm that it has retained.

A copy of Peritus' proxy voting policies and procedures, as well as specific information about how Peritus has voted in the past, is available upon written request. Upon written request, clients can also take responsibility for voting their own proxies, or can give Peritus instructions about how to vote their respective shares.

Generally, and except to the extent that a client otherwise instructs Peritus in writing, Peritus will vote (by proxy or otherwise) in all matters for which a shareholder vote is solicited by, or with respect to, issuers of securities beneficially held in the clients' accounts. The proxies, which typically take the form of Consent Solicitations, will be voted in such a manner as Peritus deems appropriate and in accordance with written policies and procedures established by Peritus. These policies require Peritus to vote proxies in a prudent and diligent manner intended to enhance the economic value of the client's account. However, the Policies permit Peritus to abstain from voting proxies in the event that the client's economic interest in the matter being voted upon is limited relative to the client's overall portfolio or the impact of the client's vote will not have an effect on its outcome or on the client's overall portfolio or the impact of the client's vote will not have an effect on its outcome or on the client's economic interests.

Certain of Peritus' proxy voting guidelines are summarized below:

- Peritus votes for: uncontested director nominees recommended by management; the election of auditors recommended by management, unless a dispute exists over policies; limiting directors' liability; and eliminating preemptive rights.
- Peritus votes against proposals to: entrench the board or adopt anti-takeover measures; proposals to provide cumulative voting rights; and social issues.

Although many proxy proposals can be voted in accordance with Peritus' proxy voting guidelines, some proposals will require special consideration, and Peritus will make a decision on a case-by-case basis in these situations, including proposals to: eliminate director mandatory retirement policies; rotate annual meeting locations and dates; grant options and stock to management and directors; and indemnify directors and/or officers.

Where a proxy proposal raises a material conflict between Peritus' interests and the interests of a client, Peritus will seek to resolve the conflict.

Financial Information

Peritus has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

Peritus Asset Management, LLC

Part 2B of Form ADV

The Brochure Supplement

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Updated: March 20, 2015

This brochure supplement provides information about Ron Heller, CEO, Tim Gramatovich, CIO, and Heather Rupp, Director of Research, and Dave Desmond, COO, CCO. It supplements Peritus' accompanying Form ADV brochure. Please contact Peritus' Chief Compliance Officer, David Desmond, at 805-882-1100, ext. 612 if you have any questions about the Form ADV brochure or this supplement, or if you would like to request additional or updated copies of either document.

Additional information about Messrs. Heller, Gramatovich, Desmond and Ms. Rupp is available on the SEC's website at www.adviserinfo.sec.gov. Registration with the SEC does not imply a certain level of skill or training.

Mr. Ronald J. Heller, CEO - Biographical Information

Educational Background and Business Experience

Mr. Heller is the Chief Executive Officer, Senior Portfolio Manager of Peritus Asset Management, LLC. Mr. Heller co-founded Peritus Asset Management, Inc.¹ in 1995. As Senior Portfolio Manager, he is responsible for the portfolio management and trading activities for Peritus, ensuring that the firm's strategy is properly implemented and that the clients receive the best execution on all trades. Over the past 19 years, Mr. Heller has developed long standing relationships across Wall Street for new issue and secondary trading in both the Investment Grade and High Yield assets classes. As high yield bonds are not an "exchange-traded" asset class, the ability to find, negotiate and acquire bonds is a critical component of portfolio performance. Additionally, Mr. Heller has been responsible for the maintenance of all custody and investment dealer relationships and is a member of the investment committee.

Beginning in 1993, Mr. Heller spent two years at Smith Barney as a financial consultant. Prior to Mr. Heller's investment career, he had a seven year career in professional football with the San Francisco 49ers, winning Super Bowl XXIII, then later with the Atlanta Falcons and Seattle Seahawks, retiring in 1993. Mr. Heller currently holds his Series 7 license under Foreside Fund Services, LLC.

Mr. Heller was born in 1963. Mr. Heller attended Oregon State University where he played football while majoring in Kinesiology and secondary education. He received his California State Coaching Certification through UCSB and also attended the University of San Francisco in his off-season with the San Francisco 49ers, taking business accounting and tax law courses.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

Disciplinary Information

Mr. Heller has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Heller or of Peritus.

Other Business Activities

Mr. Heller serves on the Board of Directors for American Medical File, Inc. (AMF). AMF is a private entity company owned largely by investors who are clients of Peritus. Mr. Heller receives no monetary compensation for serving on the board; however, he does receive equity in the name of Peritus. Mr. Heller is not engaged in any other investment related business, and does not receive compensation in connection with any other business activity outside other than what has been identified above.

Additional Compensation

Mr. Heller does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients.

Supervision

As Peritus' co-founder and Chief Executive Officer, Mr. Heller maintains ultimate responsibility for the company's operations. Mr. Heller discusses investment decisions principally with the other Investment Committee members, Mr. Gramatovich and Ms. Rupp. Mr. Gramatovich has the ultimate responsibility on this committee. Operational decisions are discussed with Peritus' Chief Operating Officer, and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Mr. Timothy J. Gramatovich, CFA, CIO - Biographical Information

Educational Background and Business Experience

Mr. Gramatovich is the Chief Investment Officer of Peritus Asset Management, LLC. Mr. Gramatovich co-founded Peritus Asset Management, Inc.¹ in 1995. As the Chief Investment Officer, Mr. Gramatovich leads the investment committee and is responsible for developing investment strategies, themes, and products. Additionally, he generates investment ideas, analyzes prospective investments, and monitors existing holdings.

Mr. Gramatovich has over 30 years of experience in the investment industry, dating back to the early days of the high yield market. Before founding Peritus, Mr. Gramatovich was a Portfolio Manager with Smith Barney's Asset Management Division in Los Angeles, where he managed high yield portfolios for high net worth individuals and institutions. Prior to joining Smith Barney, he was a Senior Vice President with Aegis Asset Management Inc. in Los Angeles, again, managing high yield portfolios for both high net worth individuals and institutions. He began his career with Drexel Burnham Lambert in 1984, working in both New York and Los Angeles, assisting in the development and marketing of high yield corporate cash management products.

Mr. Gramatovich was born in 1963. Mr. Gramatovich is a Chartered Financial Analyst ("CFA")² charterholder and a member of the CFA Institute. He is a graduate of the New York Institute of Finance.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

² In order to become a CFA charter holder and enjoy the benefits of increased CFA salaries, candidates must pass three sets of six-hour exams, have a bachelor's degree from an accredited institution, and have at least four years of qualified work experience. CFA charter holders are required to follow to a strict code of ethics and rules that governs both their professional and personal conduct. As of August 2010, the CFA Institute reported global membership of more than 90,000 CFA charter holders.

Disciplinary Information

Mr. Gramatovich has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Gramatovich or of Peritus.

Other Business Activities

Mr. Gramatovich serves on the Board of Directors for Worldplay, a business solutions company that helps their partners leverage and integrate the power of video to meet their organizational needs

Additional Compensation

Mr. Gramatovich does not receive compensation in connection with any another business activity outside of Peritus.

Supervision

Mr. Gramatovich's investment recommendations are supervised by Peritus' CEO, Mr. Ron Heller, as well as Peritus' Director of Research, Heather Rupp. Mr. Gramatovich has the ultimate responsibility on this committee. Mr. Gramatovich's activities are also overseen by the Chief Operating Officer and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Ms. Heather Rupp, CFA, Dir. of Research - Biographical Information

Educational Background and Business Experience

As the Director of Research, Ms. Rupp is responsible for the oversight of Peritus Asset Management's research department and processes. Her duties include generating investment ideas, conducting fundamental credit analysis of prospective investments, and actively monitoring existing holdings. She also oversees the maintenance of the performance composite and various aspects of reporting. Ms. Rupp is a member of the investment committee.

Ms. Rupp started with Peritus Asset Management, Inc.¹ in 1999 as a research analyst and in 2001 became Director of Research. She has spent her entire professional career with the founding partners of Peritus.

Ms. Rupp was born in 1978. Ms. Rupp graduated from Westmont College, Summa Cum Laude, where she majored in Economics and Business and had the opportunity to study international trade and finance in Europe. She is a Chartered Financial Analyst ("CFA")² charterholder and a member of the CFA Institute.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

² In order to become a CFA charter holder and enjoy the benefits of increased CFA salaries, candidates must pass three sets of six-hour exams, have a bachelor's degree from an accredited institution, and have at least four years of qualified work experience. CFA charter holders are required to follow to a strict code of ethics and rules that governs both their professional and personal conduct. As of August 2010, the CFA Institute reported global membership of more than 90,000 CFA charter holders.

Disciplinary Information

Ms. Rupp has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Ms. Rupp or of Peritus.

Other Business Activities

Ms. Rupp is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of Peritus.

Additional Compensation

Ms. Rupp does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients.

Supervision

Ms. Rupp's investment recommendations are supervised by Peritus' CEO, Ron Heller, and by Peritus' CIO, Tim Gramatovich as well as Peritus' investment management committee. Mr. Gramatovich has the ultimate responsibility on this committee. Ms. Rupp's activities are also overseen by the Chief Operating Officer and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Mr. David J. Desmond, COO, CCO - Biographical Information

Educational Background and Business Experience

Mr. Desmond joined Peritus in August of 2005 and is responsible for the strategic planning and financial management of the firm, as well as the coordination of sales, marketing and customer support and general business operations. Mr. Desmond also serves as the Chief Compliance Officer for the company, interfacing with the trading and portfolio management operations and other departments to monitor all necessary areas of compliance.

Mr. Desmond has over 29 years of business experience, ranging from roles in marketing research, sales, operations, finance, and consulting, to strategy and planning. He has served in a variety of organizations, including both large corporate enterprises such as AT&T and US West/Qwest Communications, as well as senior positions in entrepreneurial organizations.

Mr. Desmond was born in 1964. Mr. Desmond earned his Bachelor of Science degree in Business Administration from California Polytechnic State University in San Luis Obispo, CA, and an MBA with honors from St. Mary's College, Moraga, CA in Marketing and in Business Law. Mr. Desmond currently holds his Series 7 license under Foreside Fund Services, LLC.

Disciplinary Information

Mr. Desmond has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Desmond or of Peritus.

Other Business Activities

Mr. Desmond serves on the Board of Directors for American Medical File, Inc. (AMF). AMF is a private entity company owned largely by investors who are clients of Peritus. In September of 2013, the CEO of AMFI resigned and Mr. Desmond assumed the role of Interim President of AMFI. The goal is to find suitable replacement for the CEO. Mr. Desmond receives no monetary compensation for serving on the board; however, he does receive \$1 per year for his Interim President role, and he does receive equity in the name of Peritus. Mr. Desmond is not engaged in any other investment related business, and does not receive compensation in connection with any other business activity outside other than what has been identified above.

Additional Compensation

Mr. Desmond does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients. In relation to the Interim President role for AMFI outlined above, Mr. Desmond is receiving compensation of \$1 per year. No additional equity was awarded to Mr. Desmond as a result of this interim role.

Supervision

Mr. Desmond's sales and marketing of Peritus is supervised by Peritus' CEO, Ron Heller. Mr. Desmond's role is solely on the sales and marketing side to external clients and prospects of Peritus as well as the COO and CCO roles described previously. Mr. Desmond does not make any securities recommendations to the Peritus Investment Committee, clients or prospects. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.