

**Item 1 – Cover Page**

**Cain Brothers Asset Management, LLC**

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**New York, NY 10017**

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**March 31, 2014**

This Brochure provides information about the qualifications and business practices of Cain Brothers Asset Management, LLC (“CBAM”, the “Adviser” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at (212) 869-5600. 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 or other regulatory authority.

CBAM is a registered investment adviser with the SEC, a registered commodity pool operator with the Commodity Futures Trading Commission and also a member of the National Futures Association (“NFA”). Registration of an investment adviser or commodity pool operator does not imply any level of skill or training. Additional information about CBAM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) as well as on the NFA’s website at <http://www.nfa.futures.org/basicnet/>.

## **Item 2 – Material Changes**

This Brochure, dated March 31, 2014, constitutes CBAM's annual updating amendment. The date of CBAM's last annual update was March 31, 2013. Material changes include the replacement of CBAM's Option Income Strategy with its Global Systematic Risk Allocation Strategy, as described in Item 4, along with a shift in the methods of analysis and risks associated with the Global Systematic Risk Allocation Strategy, as detailed in Item 8.

Pursuant to SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business's fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, without charge.

Our Brochure may be requested by contacting Charity A. Davidenko, Chief Compliance Officer ("CCO") at (212) 981-6937 or [cdavidenko@cainbrothers.com](mailto:cdavidenko@cainbrothers.com) and can also be obtained from the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The SEC's web site also provides information about any persons affiliated with CBAM who are registered as investment adviser representatives of the Adviser.

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#### **Item 4 – Advisory Business**

Cain Brothers Asset Management, LLC has been in business since 2009 and is a wholly-owned subsidiary of its parent firm, Cain Brothers & Company, Inc. CBAM provides investment management services to institutions, corporations, trusts and individuals, with an emphasis on participants in the healthcare industry. CBAM provides institutional investment management services using an investment approach based on an overall risk management perspective, a focus on current market conditions and an overriding commitment to maximizing compound returns relative to the amount of risk assumed. These services focus on providing an integrated investment strategy that seeks to meet long-term financial targets while minimizing short-term downside volatility in investment returns. CBAM provides these institutional investment management services through a combination of separately managed accounts and two CBAM managed unregistered investment funds. In addition, CBAM provides institutional investment management services for indentured funds in a manner that seeks to security and flexibility. These services are designed to meet the indentures' requirement for principal preservation and are generally provided to tax-exempt healthcare systems, tax-exempt senior living providers and other tax-exempt issuers.

CBAM manages most client accounts on a discretionary basis and has full authority in determining what securities to buy and sell. CBAM implements its investment strategies through investments in a range of securities and other financial instruments, including, US government securities, fixed income securities, mortgage-backed securities, commercial paper, CDs, municipal securities, equities (both individual stocks and baskets of stocks), commodities, foreign currency, related instruments (e.g., futures, forwards, exchange-traded funds or notes, total return swaps), equity volatility related instruments, and long and short call options and put options on the underlying or related instruments.

CBAM currently manages assets in accordance with three distinct but related strategies. The three strategies are the Fixed Income Strategy, the Global Systematic Risk Allocation Strategy and the Global Equity Strategy. The strategies are often combined within a client's portfolio to meet the investment objectives. All of CBAM's investment strategies have the primary goal of maximizing compounded returns relative to the level of risk assumed.

CBAM manages each account to meet specific client objectives within the context of any specific restrictions the client may have in its investment policy or other defining documents. The client objectives and defined restrictions, as well as any other restrictions the client may specify, are documented in the Investment Management Agreement.

As noted above, CBAM manages two unregistered investment funds. Further information regarding these funds can be located in Item 8 herein. These Funds are available only to Eligible Investors, as defined in the funds' Private Placement Memorandums.

As of December 31, 2013, CBAM managed \$1,576,531,210 of client assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

The specific manner in which fees are charged by CBAM is established in a client's written agreement with the Adviser.

As of December 31, 2012, fees for CBAM's investment advisory services are as follows:

- Fixed Income Strategy - 0.50% per annum
- Global Systematic Risk Allocation Strategy – 1.00% per annum
- Global Equity Strategy – 1.00% per annum

CBAM reserves the right to negotiate fees with clients, and may charge fees higher or lower than those described above. Accordingly, not all clients may pay the same fees and charges. Furthermore, CBAM reserves the right to waive advisory fees for certain accounts such as employee accounts.

Fees are usually calculated based upon the average of the fair market value of the portfolio assets of the account on the last business day of the previous calendar month and the last business day of the current month, as reported by the client's custodian/trustee. Fees are billed and payable quarterly in arrears. Other alternatives may be negotiated with particular clients on a client-by-client basis.

Clients may also elect to be billed directly for fees or to authorize the Adviser to directly debit fees from client accounts. Management fees are prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned and unpaid fees will be due and payable.

CBAM's fees are exclusive of brokerage commissions, transaction fees, custodial fees and other related costs and expenses which shall be incurred by the client. Mutual funds, exchange-traded funds and other pooled investment vehicles also charge internal management fees and operational expenses, which are disclosed in a fund's prospectus. Such fees and expenses are exclusive of and in addition to CBAM's fees. CBAM does not receive any portion of these fees

and expenses, with the exception of benefits received through soft dollar arrangements as discussed Item 12. Item 12 describes the factors that CBAM considers in selecting broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

The fees for the private funds managed by CBAM are calculated and payable monthly in arrears based upon the ending net assets of the fund. Further information regarding the fees and expenses of the funds can be located in their respective Private Placement Memorandums.

CBAM believes that its fees are competitive with those charged by other investment advisers for comparable services; however, similar services may be available from other firms for fees below those charged by CBAM.

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

In some cases, CBAM may enter into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each such client. CBAM will structure any performance or incentive fee arrangement subject to Section 205(a) (1) of the Investment Advisers Act of 1940 in accordance with an available exemption thereunder. Performance based fee arrangements create an incentive for CBAM to purchase securities that are riskier or more speculative than those which it would purchase under a different fee arrangement.

CBAM may manage accounts that are charged a performance-based fee and also accounts that are charged an asset-based fee. This creates an incentive for CBAM to favor performance-based fee accounts (which may pay higher fees) over asset-based fee accounts when allocating investment opportunities among clients. CBAM has procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

### **Item 7 – Types of Clients**

CBAM provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs and other U.S. and international institutions.

CBAM requires a minimum account size of \$10,000,000 and a minimum fee of \$50,000 per year. Accounts of lesser size may be accepted in CBAM's discretion.

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

Client accounts managed in accordance with the Fixed Income Strategy are invested in high quality interest bearing securities in the U.S. fixed and variable interest rate markets, generally U.S. Treasury, Agency and Agency mortgage-backed securities (including collateralized mortgage obligations). The objective of the strategy is to earn a positive nominal return each year regardless of movements in the general level of interest rates or the return earned on any benchmark index. As with any investment approach, the Fixed Income Strategy introduces a number of risks which CBAM actively manages. Risks specific to the Fixed Income Strategy include duration risk, prepayment risk, credit risk, counterparty risk and liquidity risk in its fixed income portfolios. Duration risk is the risk of changes in the value of a security due to the change in interest rates. Mortgage backed securities are subject to prepayment risk which is the potential loss in value due to prepayments on the underlying mortgages. Credit risk reflects the potential loss in the value of a security due to a change in the perceived credit quality of the underlying issuer of a security. Counterparty risk is the risk of a failed delivery on a security purchase or sale. Liquidity risk is in all traded markets and is the risk of a potential loss in value due to absence of ready buyers and sellers in the underlying security.

The Global Systematic Risk Allocation Strategy utilizes a risk based allocation methodology for determining exposures in global investment markets including equity, credit, nominal bond, inflation linked bond, commodity and foreign currency to create a risk efficient total return profile. The objective of the Global Systematic Risk Allocation Strategy is to maximize compound returns over time for a targeted level of risk while minimizing the impact of intermediate term fluctuations in prices from any particular market sector. The allocation to any particular market will change over time based on a systematic risk allocation process and may be derived from investments in the underlying instruments, related instruments (e.g., futures, forwards, exchange-traded funds or notes, and total return swaps), and long and short call options and put options on the underlying or related instruments.

Excess liquidity in the Global Systematic Risk Allocation Strategy is generally invested in accordance with the tenets of the Fixed Income Strategy. However, the objective with regards to excess liquidity is to outperform the implied financing rate in related instruments over time.

The Global Systematic Risk Allocation Strategy introduces all the risks associated with the Fixed Income Strategy. In addition to those risks, other risks introduced by the Global Systematic Risk Allocation Strategy which CBAM manages include liquidity risk, discontinuous market risk, counterparty risks, financial market dislocation, general economic conditions, and general investment risks related to the investment in equities, bonds, inflation linked securities, commodities and foreign currencies. Financial market dislocation reflects the relative volatility in market prices caused by stress on financial market intermediaries such as brokers, banks and

clearinghouses and generally encompasses liquidity risk, discontinuous market risk, and counterparty risk. CBAM manages these risks by primarily investing in exchange traded instruments where there are multiple markets participants and where the volume is significant enough to limit the relative impact of our programs. General economic conditions and factors can have a profound impact, both positive and negative, on the markets for all investment instruments. The impact from changing economic conditions and factors generally varies across investment markets. The systematic risk allocation system is designed to equally weight the risk exposure across markets so the negative impact in any one market is offset by the positive impact in other markets. Investment exposure in any market introduces general investment risks due to changes in market perceptions of value and future risks. Over time most investments have produced a return premium although the variance in this premium can be quite wide and negative for extended periods. The Global Systematic Risk Allocation Strategy is purposely exposed to these market risks for the purpose of capturing the risk premium from these investments in a manner that seeks to maximize the return premium captured relative to the market risk assumed.

The Global Equity Strategy aims to reshape the expected distribution of long-term global equity returns primarily by options structures that seek to participate in upward price movements, but also seek to limit downside participation in price movements, and implementation of the tenets of the Global Systematic Risk Allocation System. The principal drivers of excess return will be the avoidance of down market performance through the core option structures, management of risk efficiency within the portfolio and effective cash management.

The objective of the Global Equity Strategy is to capture a significant proportion of upside equity returns while avoiding a significant proportion of downside equity returns thus reducing the volatility of returns relative to the MSCI All Country World Index (the “Benchmark”). Excess liquidity in the Global Equity Strategy generally is invested in accordance with the tenets of the Fixed Income Strategy. However, the objective with regards to excess liquidity is to outperform the implied financing rate in options over time.

In implementing the Global Equity Strategy, CBAM utilizes a range of securities and other financial instruments, including, equities (both individual stocks and baskets of stocks), interest rate instruments, related instruments (e.g., futures, forwards and exchange-traded funds or notes, and total return swaps), equity volatility related instruments, long and short call options and put options on the underlying or related instruments, and fixed and variable interest rate instruments.

The Global Equity Strategy introduces all the same risks associated with the Global Systematic Risk Allocation Strategy for equities. Over time, equities have produced a return premium over alternative investments although variance of this return premium can be quite wide. CBAM actively manages the exposure to downside variance through a variety of hedges and investment structures while seeking to capture as much of the upside variance as possible. CBAM utilizes exchange traded option contracts in creating some of these exposures and hedges. For these



contracts, counterparty risk reflects the risk that the clearing firm and the OCC fail to meet the terms of the option contract. For more detailed information on option counterparty risk and the risk of exchange traded options in general, please see the Option Clearing Corporation's website, [www.occ.com](http://www.occ.com), where you will find the publication "Characteristics and Risks of Standardized Options" and supplement. In addition, CBAM manages the market risk within the portfolio based on a systematic risk allocation process.

The Fixed Income, Global Systematic Risk Allocation and Global Equity Strategies are combined to create Multi-Strategy portfolios where the underlying portfolios are managed exactly as they would be in the stand alone application of each strategy. However, the portfolio management team allocates between the three strategies based on the client's objectives and the opportunities provided within the market environment. As with any investment approach, the Multi-Strategy introduces a number of risks which CBAM actively manages. Risks specific to the Multi-Strategy are the same as those highlighted for the three strategies.

For all three strategies, the majority of the returns will likely be classified as current income. In addition, the strategies are actively managed and could potentially involve a number of recurring trades which may involve a high level of commission expense. Frequent trading of securities can negatively affect investment performance due to increased brokerage and other transaction costs and taxes.

The unregistered investment funds introduce a number of additional risk factors including, limited operating history, lack of transparency, structural risk, liquidity risk valuation risk, regulatory risks and tax risks. These risk factors are disclosed and discussed in detail in the Private Placement Memorandums.

In general, investing in securities involves risk of loss that clients should be prepared to bear.

## **Item 9 – Disciplinary Information**

Not Applicable.

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

CBAM is an affiliate of Cain Brothers & Company, LLC ("CB"), a broker-dealer that is registered with the SEC and a member of FINRA. The principal business of some of the principal executive officers of CBAM is to serve as officers or directors of, and oversee the day-

to-day management of, CB. As a broker-dealer, CB provides a variety of brokerage, underwriting and M & A advisory services.

CB is owned by Cain Brothers & Company, Inc, which also is the owner of CBAM. Thus, CBAM and CB are affiliates. CBAM and CB have an arrangement under which CB refers potential advisory clients to CBAM. In addition, CBAM and CB have an expense-sharing agreement under which CBAM pays CB for providing certain services and resources including employees, office space and equipment.

CBAM offers two unregistered investment funds organized under Master-Feeder structures, CBAM Resolute Fund and CBAM Intrepid Fund. CBAM is the Managing Member of both on-shore feeders and the Investment Manager of both off-shore feeders and master funds. These Funds offer interests to a limited number of qualified investors.

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

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), CBAM has established and enforces a written code of ethics (“Code”) that describes standards of business conduct, including applicable fiduciary obligations, that must be observed by CBAM and its “supervised persons” (as defined in the Advisers Act) in connection with CBAM’s investment advisory business. These standards include requirements:

- To act at all times with the utmost integrity and honesty;
- To act in the best interests of clients;
- To render professional and unbiased investment advice to clients;
- To provide full, fair, and, timely information to clients;
- To avoid conflicts of interest with clients when supervised persons conduct personal securities transactions;
- To exercise diligence and care in maintaining and protecting clients’ non-public, personal or confidential information; and
- To comply at all times with the federal securities laws.

All supervised persons are prohibited from trading on the basis of material non-public information. In addition, the Code prohibits certain supervised persons (“Access Persons”) from trading, in their personal accounts or in other accounts in which they have a beneficial interest, in “reportable securities” (as defined in Rule 204A-1 and the Code) ahead of a client’s trade in the same security, and from purchasing any security that is part of an initial public offering. In addition, Level I Access Persons must obtain prior approval from CBAM’s Chief Compliance

Officer (“CCO”) before purchasing securities, including those that are part of a private placement or other limited offering.

In order to avoid conflicts of interest, the Code requires Access Persons to provide, and CBAM to review, initial and annual reports of all reportable securities beneficially owned by such access Person. Quarterly reports of all transactions in reportable securities by Access Persons are also required to be submitted under the Code and to reviewed by CBAM.

In addition, CBAM has adopted a policy under which supervised persons can trade in any security that is not on the CBAM Prohibited List, subject to the pre-trade approval requirement discussed below. The Prohibited List consists of any security (i) that is on CB’s Restricted List (ii) actively being considered for purchase or sale by CBAM for any advisory client, or (iii) is being traded for any advisory client. Notwithstanding the foregoing, personal trades of securities on the Prohibited List are allowed if the trade is made with other client accounts in a block trade. Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with CBAM's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. CBAM will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Under CBAM’s policy Level I Access persons must obtain pre-trade written approval from the CCO for all personal transactions in Covered Securities as defined in the Code (other than for a trade which is made with other client accounts in a block trade). However, CBAM does not require pre-trade approval for the following types of securities and transactions:

- Direct obligations of the Government of the United States;
- Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;
- Shares issued by money market funds;
- Shares issued by open-end funds; and
- Shares issued by unit investment trusts that are invested exclusively in one or more open-end funds, none of which are reportable funds
- Transactions in a Direct Stock Purchase Plan (DPP) or Repurchase plan (DRIP)
- Transactions in an account over which an Access Person has no direct or indirect influence or control, including an account held by an Access Person which is managed on a discretionary basis by an independent, unrelated third party

Each supervised person receives a copy of the Code and of each amendment thereto, and is required to acknowledge such receipt in writing. The Code further requires each supervised person to report any violation of the Code promptly to CBAM's CCO.

CBAM has adopted procedures to protect the confidentiality of client information and to prevent the sharing of client or trade information with persons who are not associated with CBAM.

No set of rules can possibly anticipate or relieve all potential conflicts. However, all conflicts will be resolved with the client's best interests in mind.

CBAM does not engage in principal transactions with clients. Principal transactions are generally defined as transactions where an investment adviser, acting as a principal for its own account or the account of an affiliate, buys from or sells any security to any advisory client.

Nor does CBAM enter into agency cross transactions (as defined in Rule 206(3)-2(b) under the Advisers Act). An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlling, controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. However, where CBAM determines it is in both clients' best interests and consistent with CBAM's fiduciary duty, CBAM may cross trades for a client with another client of CBAM without the use of any broker-dealer. While such cross trades involve a conflict of interest since CBAM is buying a security for one client from another client's account, such transactions may be beneficial for both clients (*e.g.*, where one client account has excess cash that needs to be invested and another client wishes to withdraw funds and needs to sell securities and raise cash). By "crossing" the transaction internally between the two accounts (*i.e.*, by instructing the custodian to have the first client purchase the securities directly from the second client), CBAM may be able to save both accounts the brokerage commissions or mark-up/mark-downs that would be charged in a transaction effected on the open market. In addition, the accounts may be able to save on market impact costs – *i.e.*, adverse movements in market price which directly result from the accounts' transactions and must be borne by the accounts. Finally, other related costs such as custody expenses and transfer taxes may also be saved.

Where CBAM believes that these benefits would inure to the benefits of both clients, it may institute cross trades. CBAM will execute such trades at a price that is equitable for both clients and is consistent with the fiduciary duty and best execution obligations it owes to both clients and only if CBAM believes that such a trade is in the best interest of both clients. CBAM will not enter into cross trades where either client is subject to the Employee Retirement Income Security Act of 1974, as amended.

Advisory clients of CBAM may also be brokerage clients of CB and receive brokerage services from CB. CB generally will earn compensation for providing brokerage services to such clients.

A copy of CBAM's Code of Ethics is available to any client or prospective client upon request.

## **Item 12 – Brokerage Practices**

With most clients, CBAM is responsible for the overall management of client accounts in accordance with their investment objective, strategies, and restrictions.

### **In General**

Purchases and sales of securities on a securities exchange are effected through brokers who charge a negotiated commission for their services. Commission rates are established pursuant to negotiations with the brokers based on a number of factors, including the quality and quantity of execution services provided by the brokers in the light of generally prevailing rates. The allocation of orders among brokers and the commission rates paid are reviewed periodically by CBAM's Best Execution Committee.

As a matter of policy, CBAM does not execute orders through Cain Brothers & Company, LLC, its affiliated broker-dealer.

### **Selection Criteria**

In placing orders for portfolio securities of a client, CBAM gives primary consideration to obtaining the most favorable price and efficient execution. This means that CBAM seeks to execute each transaction at a price and commission, markup or markdown if any, which provide the most favorable total cost or proceeds reasonably attainable in the circumstances. While CBAM generally seeks reasonably competitive spreads or commissions, clients do not necessarily pay the lowest spread or commission available. In the selection of brokers and dealers to execute portfolio transactions, CBAM is authorized to consider not only prices and rates of brokerage commissions, but also other relevant factors including, but not limited to: (1) a broker or dealer's execution capabilities, (2) the size and type of the transaction, (3) the difficulty of executing the transaction, (4) research, brokerage and other services provided by such brokers or dealers when CBAM believes that such services will enhance its general portfolio management capabilities, (5) a broker or dealer's operational facilities and level of execution efficiency, (6) the risk to such a broker or dealer of positioning a block of securities, (7) the ability of a broker-dealer to execute a trade anonymously or with little market impact or quickly, (8) clearance and settlement services, (9) financial strength, (10) responsiveness and level of service and (11) the ability and willingness of a broker-dealer to provide liquidity (*e.g.*, by putting its capital at risk and purchase large blocks of securities in a short amount of time).

## **Soft Dollars**

CBAM is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker or dealer provides execution quality comparable to other brokers or dealers, and, at times, client accounts may pay more than the lowest transaction cost available in order to obtain for themselves and/or CBAM services and products other than securities transaction execution. For instance, as noted above, CBAM may consider the value of research and brokerage services, beyond transaction execution, provided by brokers or dealers who effect, or are parties to, portfolio transactions of clients, a practice known as paying for services or products with “soft dollars.” The amount of compensation an account pays a broker or dealer who provides those services and/or products may be higher than what another, equally capable broker or dealer might charge. CBAM engages in soft dollar transactions only when it believes the commission paid is reasonable in relation to the value of the brokerage or research services received. This practice does not relieve CBAM from its duty of seeking best execution. Furthermore, it is CBAM’s policy to disclose its use of soft dollars to all prospective clients.

Soft dollar benefits are not limited to only those clients who may have generated a particular benefit. In addition, soft dollar benefits may not be allocated proportionally to the soft dollar credits that client accounts generate.

*Research and Brokerage.* CBAM may use soft dollars to acquire a variety of “research” and “brokerage” services and products for which CBAM could otherwise only acquire with “hard dollars” (*i.e.*, its own assets). When CBAM uses client brokerage commissions to obtain research or other products or services, CBAM receives a benefit because it does not have to produce or pay for the research, products or services. Therefore, CBAM has an incentive to select or recommend a broker-dealer based on CBAM’s interest in receiving the research, services or other products, rather than on CBAM’s clients’ interest in receiving the most favorable execution.

For purposes herein, “research” means advice, analyses, and reports used to provide lawful and appropriate assistance to CBAM in making investment decisions for its clients. The types of “research” CBAM expects to acquire include (but are not limited to): reports on or other information about particular companies or industries; statistical and economic data, economic surveys or analyses; portfolio evaluation services; financial database software and services; computerized quotation and statistical services; analytical software; other products or services that may enhance CBAM’s investment decision making and licenses to receive such data and reports.

“Brokerage” services and products are those that relate to the execution of the trade from the point at which CBAM communicates with a broker-dealer for the purpose of transmitting an

order for execution, through the point at which funds or securities are delivered or credited to the advised account (clearance and settlement).

The research services CBAM receives are used by CBAM in connection with all of its advisory activities, and some of such services obtained in connection with the execution of transactions for a client may be used in managing *other* clients' accounts. Soft dollar benefits may not be allocated to client accounts proportionately to the soft dollar credits the accounts generate.

Some examples of soft dollar benefits received by CBAM during its last fiscal year include, but are not limited to: portfolio management and accounting software, trading systems, ethernet connections, market data and pricing services.

*Mixed Use Products.* CBAM may obtain "mixed use" products and services - products and services that are used in part for research or brokerage purposes and in part for other purposes. When a mixed use product or service is obtained, CBAM must allocate the value of such services between research and brokerage (which can be paid for with soft dollars) and other services (which will not be paid for with soft dollars). Since that portion of a service that is not research or brokerage must be paid for from CBAM's own assets, CBAM has a conflict of interest when making this allocation.

### **Commission Sharing Arrangements**

CBAM may direct a portion of the commissions from executing trades to a broker through a Commission Sharing Agreement ("CSA"). Where CBAM has executed a CSA, CBAM will place a trade with the broker and pay the negotiated commission to that broker. The broker will then credit a negotiated portion of the commission for the purpose of funding a pool that is used to pay for research products or services received by CBAM from third parties.

*Dealer Markets.* On behalf of its clients, CBAM may also buy securities from, or sell securities to, dealers acting as principals or market makers. In the over-the-counter fixed income markets, securities are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of a security usually includes a profit to the dealer. In contrast to the "agency" transactions discussed above, CBAM will seek best execution in selecting such dealers *without* considering any research services obtained in connection with such principal transactions, although it may receive such services from such dealers from time to time. CBAM, however, may consider research services in connection with "riskless principal" transactions that are reported pursuant to certain FINRA rules that ensure transparency as to security price and transaction charges, or in connection with transactions in other markets having regulations that ensure comparable transparency of security prices and charges. In addition, CBAM may obtain research services in connection with investments in underwritten fixed price offerings consistent with certain FINRA rules.

## **Client Directed Brokerage Arrangements**

CBAM may accept written instructions from Client to direct brokerage to a particular broker-dealer ("Directed Broker-Dealer"). CBAM's ability to achieve best execution may be partially or wholly limited by the nature of the directed brokerage arrangement Client has instructed CBAM to follow. In particular, CBAM may not achieve executions of the nature, quality, speed or price that it might otherwise achieve when a Directed Broker-Dealer is used to execute transactions as the Directed Broker-Dealer may not have the ability to obtain best execution of all the client's transactions. Where clients designate brokers or dealers through which transactions are to be effected, CBAM generally will not negotiate commission rates with those brokers or dealers. Furthermore, if a client directs brokerage, the client's account will not be able to participate in reduced commission rates which may be available to aggregated or "bunched" orders placed by CBAM. Orders for such clients generally will be placed after orders for clients that leave the selection of brokers or dealers to the discretion of CBAM. Execution of the transactions for CBAM's other accounts could affect the market price of the security being bought or sold, meaning that the directing client's account may pay more for a security being purchased or receive less for a security being sold than CBAM's other accounts. Thus, an account utilizing a directed brokerage arrangement may pay higher commissions than those accounts which do not utilize directed brokerage. Accordingly, Client's accounts using a Directed Broker-Dealer may not generate returns equal to those of non-directed accounts.

## **Aggregation and Allocation of Orders**

On occasions when CBAM determines that the purchase or sale of a security is in the best interest of a client as well as its other advisory clients, CBAM may, to the extent permitted by applicable laws and regulations, aggregate the securities being sold or purchased for the client with those being sold or purchased for such other clients in order to obtain the best net price and most favorable execution. In such event, allocation of the securities so purchased or sold, as well as the expenses incurred in the transaction, is made by CBAM in a manner that is equitable and consistent with its fiduciary obligations to the client and such other clients. In some instances, this procedure may adversely affect the price and size of the position obtainable for a client.

When CBAM decides it is in the best interest of several of its clients to purchase or sell the same investments and there is a limited supply of an investment, the investment may not be purchased for all clients. In such cases, CBAM may, consistent with its fiduciary duty, allocate or rotate investment opportunities among clients for whom the investment is appropriate on a basis that over time is fair and equitable. Due to the sequential execution of orders for different clients under a trade rotation procedure, it is possible that clients will receive a different price for a transaction in the same security than will other clients.



Clients of CBAM may be following the same or similar strategies at the same or different times as those being followed by CBAM's other clients. Because different portfolio construction processes are used for different types of accounts, certain accounts may not be allocated investment opportunities where the portfolio manager in good faith determines that such opportunity may not be appropriate for certain such accounts.

### **Item 13 – Review of Accounts**

Accounts are supervised continuously and reviewed monthly, at a minimum, by the Chief Investment Officer, the Chief Executive Officer or other senior personnel of CBAM. In addition to the monthly reviews, accounts are reviewed quarterly by the Investment Committee. The review process consists of the following:

- Assessment of client's goals and objectives
- Evaluation of the investment strategy
- Adjustment of target mix, if appropriate

Interim account reviews may be triggered by external events including:

- Client request
- Change in client goals and objectives
- Market conditions

All clients receive monthly reports from the client's custodian or trustee. CBAM has no control over the timing or accuracy of these reports.

In addition to the client's custodian/trustee reports, CBAM provides all clients quarterly market value reports which outline the current positions and market values of all accounts as well as performance analysis reports which display the time weighted rates of return realized in the accounts. CBAM utilizes Advent software and Bloomberg in generating the reports. CBAM may also provide customized reports to clients on a more frequent basis.

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

CBAM has a solicitation agreement with Cain Brothers L.L.C. an affiliated company. The agreement is designed to comply with the requirements set out in Rule 206(4)-3 under the Investment Advisers Act of 1940, including the requirement that the relationship between the solicitor and the investment adviser is disclosed to the client at the time of the solicitation or referral. Referral fees are a percentage of the annual management fees earned by CBAM on the referred accounts and represent no additional expense to such accounts. Clients are requested to acknowledge this arrangement prior to the acceptance of the clients' funds.

## **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains clients' investment assets. CBAM urges you to carefully review such statements and compare such official custodial records to the account statements that we provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

CBAM usually receives discretionary authority from the client at the outset of an advisory relationship via the client agreement 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, CBAM observes the reasonable investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to CBAM in writing and agreed to by CBAM.

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

As a matter of firm policy and practice, CBAM does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. CBAM may provide advice to clients regarding the clients' voting of proxies.

Clients will receive their proxies or other solicitations directly from their custodian, transfer agent, trustee or from us. Clients may contact their investment adviser representative with questions about a particular solicitation.

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

Not Applicable.