

# **Gramercy Funds Management LLC**

## **Brochure**

*March 31, 2015*

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**This brochure provides information about the qualifications and business practices of Gramercy Funds Management LLC (“Gramercy”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (203) 552-1900. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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## **Item 2. Material Changes**

Since Gramercy Funds Management LLC ("**Gramercy**") filed its last annual update on March 31, 2014, there have been no material changes. All information provided herein reflects routine updates in connection with the annual review and update of Gramercy's brochure.

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## Item 4. Advisory Business

### History of the Firm

Gramercy Funds Management LLC (“**Gramercy**” or the “**Firm**”) is a global asset management firm dedicated to emerging markets. The Firm was founded in 1998 by Robert Koenigsberger, Managing Partner and Chief Investment Officer, to invest in distressed opportunities in emerging markets. Over the years, Gramercy has thoughtfully and deliberately expanded its investment capabilities to meet the needs of its investors and today the firm manages assets across a range of alternative and long-only emerging markets investments. Strategies include distressed, high yield and performing credit, equity, private equity, and special situation investments. Gramercy is headquartered in Greenwich, Connecticut with offices in London, Hong Kong, Singapore, Mexico City and Silicon Valley (Menlo Park), with a presence in Lima and Buenos Aires.

### Ownership of the Firm

While the Firm’s actual equity is divided amongst three senior partners (Robert Koenigsberger, Scott Seaman, and Robert Rauch), all employees share in a Performance Unit Plan (“PUPs”) which grants synthetic equity to 100% of the Gramercy staff. Annual grants have been issued for calendar years 2008-2014, totaling an equity ownership equivalent of approximately 15% of the Firm. Our plan is to continue making annual grants, as well as pay cash dividends on such PUP equity ownership (PUP cash dividends were declared/paid in 2011, 2012, 2013 and 2014).

### Assets under Management

As of January 31, 2015, Gramercy reported regulatory AUM of approximately \$4,525,221,099, all of which was managed on a discretionary basis. Please note that this figure differs from the AUM total quoted above as it only takes into account regulatory assets under management.

### Description of Advisory Services

For 17 years, Gramercy has provided investment advisory services and products to a variety of clients. Gramercy focuses on providing the highest quality of investment management services and delivering exceptional client service. Gramercy has domestic and offshore private investment vehicle clients (collectively, the “**Funds**”) and separately managed account clients for institutional investors (such as pension plans, endowments or trusts) (the “**Managed Accounts**”). The Funds and Managed Accounts focus primarily on emerging markets investment strategies.

Gramercy serves as the managing member of, or investment adviser to, each of our Funds. With respect to each of the Funds, Gramercy’s investment authority is set forth in the applicable governing documents. Gramercy also serves as the sub-adviser for certain investment vehicles and the scope of Gramercy’s investment authority is set forth in the sub-advisory agreements for such entities.

Additionally, Gramercy manages assets for clients in the form of Managed Accounts. Clients enter into investment management agreements which authorize Gramercy with full discretion and authority to make investment decisions on behalf of the relevant Managed Account, subject to any restrictions contained in the investment management agreement or otherwise agreed to with the Managed Account.

Gramercy generally seeks to manage each Managed Account's assets based upon the Managed Account's particular investment guidelines, reporting requirements, desire to be an active investment participant, infrastructure models, etc. We are capable of managing a portfolio according to complex, client directed constraints and have developed an in-house compliance monitoring and reporting program to ensure guidelines are adhered to.

Gramercy provides advice to client accounts based on specific investment objectives and strategies. Under certain circumstances, Gramercy may agree to tailor advisory services to the individual needs of clients. Clients may impose restrictions on investing in certain securities or certain types of securities. Please see Item 16 below for a more detailed description of how advisory services may be tailored for specific clients.

## **Item 5. Fees and Compensation**

### *Asset-Based Compensation*

With respect to both Funds and Managed Accounts, Gramercy typically receives a management fee based upon a percentage of assets under management. Such management fee is generally between 1.0% to 2.0% per annum of the value of the client's assets under management (for our alternative strategies) and is payable monthly or quarterly. For certain clients holding index-benchmarked long-only assets, management fees generally range from 0.30% to 1.25% per annum and are payable monthly or quarterly.

Investment management fees are generally charged each month or quarter in arrears based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the month or quarter. If a new client account is established during a month or quarter or a client makes an addition to its account during a month or quarter, the investment management fee will be prorated for the number of days remaining in the month or quarter. If a client's investment management agreement is terminated or a withdrawal or redemption is made from a client account during a month or quarter, the fee payable to Gramercy will be calculated based on the value of the assets on the termination date or withdrawal or redemption date and prorated for the number of days during the quarter or month in which the investment management arrangement was in effect or such amount was in the account.

Management fees may, under limited circumstances, be negotiated based on the size of the account.

### Performance-Based Compensation

With respect to both Funds and Managed Accounts, Gramercy is typically paid a performance-based fee or allocation for our alternative strategies. Such performance-based fee or allocation typically ranges from 10% to 20% of the annual capital appreciation of the client's account, calculated after management fees and expenses are applied. Gramercy is generally not paid a performance-based fee or allocation for our index-benchmarked, long-only strategies.

Performance-based fees or allocations may, under limited circumstances, be negotiated based on the size of the account.

The independent administrator for each of our Funds calculates and deducts the investment management fee and, if applicable, the performance-based compensation from client accounts by instructing the client's custodian.

In addition to paying investment management fees and, if applicable, performance-based fees or other compensation, client accounts (including Funds) will also be subject to other expenses including, but not limited to, legal, compliance, audit and accounting expenses (including third party accounting services) of the client; administrator fees and expenses; investment expenses such as commissions, research fees and expenses (including research-related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; bank service fees; client-related insurance costs (including D&O insurance costs) and any other expenses related to the purchase, sale or transmittal of the client's assets, the fulfillment of the client's purpose or as necessary to protect the interests of the client from any potential or actual creditor or litigant. Client accounts which are managed accounts will be subject to expenses related to the purchase, sale or transmittal of the client's assets and such other expenses as may be agreed with the client. Client assets may be invested in pooled investment vehicles. In these cases, clients will bear their pro rata share of the underlying fund's operating and other expenses including, in addition to those listed above: sales expenses, legal expenses; internal and external accounting, audit and tax preparation expenses; and organizational expenses. Client assets may be invested in a master-feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related master fund. Please refer to Item 12 below for a discussion of Gramercy's brokerage practices.

### General

To the extent that a Fund or Managed Account invests in another Fund, Gramercy will waive the management fee and performance-based compensation in one Fund or Managed Account so that such Fund or Managed Account is not subject to duplicative fees for the same investment.

Each of the Funds for which Gramercy serves as investment manager may enter into agreements, or "side letters," with certain prospective or existing members or shareholders whereby such members or shareholders may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the Fund. For example, such terms and conditions may provide for special rights to make future investments in the Fund, other investment vehicles or managed accounts; rights to receive reports from the Fund on a more frequent basis or that include information not provided to other members or shareholders

(including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Fund and such members or shareholders. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the member's or shareholder's investment in the Fund or affiliated investment entity, an agreement by a member or shareholder to maintain such investment in the Fund for a significant period of time, or other similar commitment by a member or shareholder to the Fund.

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

Gramercy and its investment personnel provide investment management services to multiple portfolios for multiple clients. Gramercy is typically paid performance-based compensation by certain of its Funds and Managed Accounts. In addition, certain client accounts may have higher asset-based fees or more favorable performance-based compensation arrangements. When Gramercy and its investment personnel manage more than one client account an unavoidable potential exists for one client account to be favored over another client account.

To ensure that one account is not treated more favorably than another account, Gramercy has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. These procedures establish rules for the formulation and subsequent aggregation and allocation of trades that are designed to ensure that all accounts with substantially similar investment objectives are treated equitably. These policies are monitored by Gramercy's Chief Compliance Officer.

## **Item 7. Types of Clients**

Gramercy's primary client base consists of pooled investment vehicles, pension plans, foundations, public retirement funds, endowments, sovereign wealth funds, insurance plans, high net worth investors, pooled investment funds, other investment advisors and corporations.

With respect to the Funds, any initial and additional subscription minimums are disclosed in the offering memorandum for each Fund. Typically, the minimum investment in a Fund is at least \$1,000,000.

Although Gramercy does not maintain a specific minimum dollar value of assets or other conditions for opening a managed account, Gramercy's managed account services are directed towards institutional investors who are prepared to invest substantial sums of at least \$25,000,000 or more.

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

### **Methods of Analysis and Investment Strategies**

Gramercy invests across a range of alternative and long-only emerging markets investments. Strategies include distressed, high yield and performing credit, equity, private equity, and special situation investments

#### **Emerging Markets Distressed and Special Situations**

Our Emerging Markets Distressed and Special Situations strategies utilize proactive, distressed investing in emerging markets corporate, sovereign or quasi-sovereign entities. Strategies target stressed/distressed and defaulted bonds which are typically large, global Eurobond issues, governed by U.S. or U.K. law, underwritten in public capital markets and generally U.S. dollar denominated. Positions are sized relative to market liquidity. Alpha generation takes place through bottom-up, intensive credit evaluation/monitoring combined with the top-down perspective of a highly experienced team of career-dedicated emerging markets investors. Portfolios are hedged typically using sovereign credit default swaps.

#### **Emerging Markets Long-Short Credit**

Our Emerging Markets Long-Short Credit strategy relies on extensive fundamental analysis in an effort to identify long/short opportunities. Longs are typically credits that are trading significantly below their intrinsic value and short positions are typically overvalued opportunities that will re-price around an event or catalyst. These securities are external obligations (bonds) of countries, corporations and quasi-sovereigns in emerging markets. They are issued outside of a country under external jurisdiction and they are governed under U.S. or U.K. Law. The securities are typically denominated in U.S. Dollars and Euros. Our investment process includes top-down analytics which identify value and bottom-up research that drive credit selection. This bottom-up primary research driven analysis combines the analytical based foundation and the analysts' qualitative insights to ultimately generate investment ideas. Portfolios are hedged typically using sovereign credit default swaps.

#### **Long-Only Debt**

Gramercy offers a full spectrum long-only Emerging Market Debt ("**EMD**") platform with the unique capability of being able to provide complete EMD solutions through our Asset Allocation strategies. Our underlying approach to investing in long-only emerging markets debt securities is built upon both a qualitative and quantitative process designed to identify opportunities which are mispriced versus their underlying fundamental value. For both sovereign and corporate investments, model based valuation tools are employed to provide a foundation for identifying those credits which are on an improving trend and more importantly, mispriced relative to their credit score. After identifying what we believe to be the best credit investment universe via our quantitative process, the portfolio managers and analyst look at the output of credits from the model and incorporate information that can't be captured in quantitative tools (i.e., political risk, headline risk, willingness to pay, public policy, etc.) when making final portfolio investment decisions. Long-Only Debt Strategies include USD Sovereign Debt, Local Markets Sovereign Debt, Corporate Debt, High Yield Corporate Debt, Distressed Debt, Asset Allocation and Total



Return Allocation. Long-Only Debt Strategies also include UCITS products for Local Markets Sovereign Debt, Corporate Debt, High Yield Corporate Debt, and Total Return Allocation.

### Long-Only Equity

The long-only equity strategies seek to outperform their respective benchmarks using closed-end funds. There are two advantages to this unique approach. First, since closed-end funds typically trade at discounts to the value of the underlying securities they hold, we can effectively purchase securities at a discount to the market. The second advantage is one of greater diversification because a portfolio of closed-end funds effectively holds a much broader set of individual securities. Discounts and diversification benefits lead to better returns and lower risk for the product.

### Risk of Loss

There can be no assurance that the objectives associated with any of our investment strategies will be met or that we will achieve profitable results. Investments involve risk of loss and clients must be prepared to bear the loss of their entire investment. Such risks may include but are not limited to the following:

- *Emerging Markets.* The risks of foreign investments may be greater in less developed countries, sometimes referred to as emerging markets. For example, political and economic structures in these countries may be less established and may change rapidly. These countries may be more likely to experience high levels of inflation, deflation, or currency devaluation, which can harm their economies and securities markets and increase volatility. Restrictions on currency trading that may be imposed by emerging market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries.
- *Distressed Situation Risks.* Investment in distressed situations exposes the client to significant risks, including: the difficulty in obtaining information as to the issuer's true condition; regulatory risk, including laws relating to fraudulent conveyances, voidable preferences, lender liability and bankruptcy; litigation risk; liquidity risk; and collection risk (especially, when dealing with sovereign debt). Moreover, to the extent client accounts are invested in sovereign debt obligations, those investments will be subject to additional risks and considerations not present in private distressed situations, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which are affected by world events, changes in U.S. foreign policy, claims against a sovereign from other creditors and other factors outside of the control of Gramercy.
- *Credit Risks.* Investments may include the purchase of credit products and may include investment grade bonds and high yield bonds, including those for which there is available credit protection via CDS, CDS baskets, shorting various exchange traded funds or other instruments. Although investments may seek to hedge a portion of the perceived vulnerable credit exposure relating to these bond positions, it may not always do so or be able to do so and such hedges may not always be effective. Accordingly, there will

always be some and sometimes significant amounts of credit risk to investment grade and high yield bonds in portfolios.

- *Equity Risks.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.
- *Global Macro (Event-Driven Investing) Risks.* Due to the inherently speculative nature of event-driven investing, the results may fluctuate from period to period and are not expected to correlate with the direction of the markets. Accordingly, the results in a particular period will not necessarily be indicative of results which may be expected in future periods.
- *Hedging Risks.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while Gramercy may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for Gramercy's investment portfolios than if Gramercy did not engage in any such hedging transactions.
- *Interest Rate Risks.* Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.
- *Leverage Risks.* Performance may be more volatile if a client's account employs leverage.
- *Option Trading Risks.* Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty credit and solvency risk.
- *Short Selling Risks.* Short selling transactions expose client accounts to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limits. There is the risk that the securities borrowed by Gramercy in connection with a short sale would need to be returned to the securities lender on short

notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur, wherein Gramercy might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

- *Stakeholder Activism Risks.* Gramercy’s stakeholder activism investment strategies create the risk that the intended strategy for a particular company will be unsuccessful. In cases where Gramercy takes a seat on a company’s board of directors, there exists a risk that Gramercy will be restricted in transacting in or liquidating its investment in that company as a result of, among other things, legal restrictions on transactions by company directors or affiliates. The potential for company restructuring also creates the risk that Gramercy might become involved in litigation (either as a plaintiff or defendant).
- *Derivatives.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or Gramercy. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and may expose the client’s account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.
- *Distressed Securities.* Investments in unrated or low grade debt securities of distressed companies may be subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies. In addition, evaluating credit risk for foreign debt securities involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult.
- *Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a client’s portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio’s income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer’s ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such

lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

- *Illiquid Instruments.* Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and Gramercy's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for Gramercy to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.
- *Non-U.S. Securities.* Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.
- *Futures and Options.* In connection with the use of both securities and commodities futures contracts and options, there may be an imperfect correlation between the change in market value of a security or commodity and the prices of the futures contracts and options in the client's account. In addition, Gramercy's investments in security or commodity futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.

## **Item 9. Disciplinary Information**

Gramercy is not currently involved in or aware of any legal or disciplinary events that will materially or adversely affect our ability to provide investment advisory services or affect the integrity of Gramercy's management.

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

Neither we nor any of our management persons are registered, or have an application pending to register, as a broker dealer or a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing entities.

Gramercy is registered in the following jurisdictions:

- Our U.K. affiliate, Gramercy Ltd. is currently registered with the Financial Conduct Authority in the United Kingdom; and

- In conjunction with the launch of our UCITS platform, we established Gramercy Investment Funds plc, an investment company with variable capital, incorporated in Ireland pursuant to the Companies Acts 1963 to 2012 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations (2013).

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

### *Code of Ethics*

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) Gramercy’s Code of Ethics (the “**Code**”) sets forth standards and procedures that are intended to assure that its employees do not use any information concerning the investments or investment intentions of any client, or their ability to influence such investment intentions, for personal gain or in a manner that is detrimental to Gramercy’s fiduciary duty to clients. Gramercy professionals are expected to conduct themselves in a professional manner at all times, engage in and promote ethical conduct, carry out responsibilities honestly and comply with applicable government laws, rules and regulations. Upon receipt of the Code, all employees must sign an acknowledgment form. In addition, on an annual basis, all employees must certify compliance with the Code. Clients or prospective clients may obtain a copy of the Code by contacting Robert J. Lanava, Chief Compliance Officer, by email at [rl@gramercy.com](mailto:rl@gramercy.com), or by telephone at (203) 552-1900. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by related persons.

Gramercy, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which Gramercy or its related persons have invested or seek to invest on behalf of clients. Gramercy is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. Gramercy maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that Gramercy is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, Gramercy may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but Gramercy will be prohibited from communicating such information to the client or using such information for the client’s benefit. In such circumstances, Gramercy will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that Gramercy possesses such information), or not using such information for the client’s benefit, as a result of following Gramercy’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

### *Personal Trading Policy*

Under the direction of the Compliance Officer, Gramercy maintains a list of restricted securities (such list, the “**Restricted List**” and any security on the list, a “**Restricted Security**”) that Gramercy employees are prohibited, pursuant to the terms of their employment, from purchasing

or selling without the express approval of the Compliance Officer. In addition, Gramercy employees are also prohibited from entering into any type of derivatives transaction with respect to a Restricted Security without the express approval of the Compliance Officer.

### Restricted List

At all times, the Restricted List consists of: (i) all emerging markets instruments (including, but not limited to, sovereign and non-sovereign bonds, stocks and currencies); (ii) all closed-end funds; (iii) any security held by an investment fund or client account managed by Gramercy; (iv) any security under investment consideration or which is currently being researched by Gramercy on behalf of any investment fund managed by Gramercy or any other client of Gramercy; (v) all private investment funds that are not managed by Gramercy including, but not limited to, hedge funds, private equity funds and real estate investment funds; and (vi) any other security with respect to which Gramercy possesses material non-public information. Notwithstanding the foregoing, the Restricted List shall not include any open-ended mutual fund shares or exchange traded funds.

Upon the commencement of any research or investment consideration of a security by a portfolio manager or an analyst or upon the execution of a purchase of a security by a portfolio manager or analyst on behalf of an investment fund or client account, such portfolio manager or analyst is required to immediately report the identity of the relevant security to the Compliance Officer. Furthermore, in the event that any employee at Gramercy obtains material nonpublic information regarding a security, such employee is required to report the identity of the security to the Compliance Officer. The Compliance Officer will ensure that all securities reported in accordance with the above referenced guidelines are promptly added to the Restricted List. In addition, the Compliance Officer will, on a routine basis, coordinate with portfolio managers and other Gramercy employees to determine whether (i) any securities on the Restricted List are no longer held by investment funds or client accounts managed by Gramercy, (ii) any securities on the Restricted List are no longer the subject of research or any investment consideration, and (iii) whether any non-public material information regarding a security on the Restricted List is no longer non-public or material, in which case such securities may be removed from the Restricted List.

### Trade Process

If a Gramercy employee wishes to execute a purchase, sale, derivatives transaction or any other personal trade (a “**Personal Trade**”) with respect to any Restricted Security, the employee is required to complete and submit to the Compliance Officer a pre-authorization form, identifying the security, quantity, size and direction of the proposed Personal Trade. The Compliance Officer will review the pre-authorization form and may, in certain limited circumstances and in his sole discretion, approve the proposed Personal Trade. If necessary, the Compliance Officer shall consult with internal and external counsel prior to approving a proposed Personal Trade. In general, proposed Personal Trades, which create an investment position with respect to a Restricted Security, will not be approved. Any approval provided by the Compliance Officer will be valid only during the day such pre-authorization form is filed with the Compliance Officer and the next trading day. Notwithstanding the foregoing, a Gramercy employee may execute a Personal Trade without submitting a pre-authorization form or obtaining the approval



of the Compliance Officer if such Personal Trade is a credit default swap transaction pursuant to which the Gramercy employee is purchasing credit protection with respect to one or more sovereign bonds.

Employees of Gramercy may purchase or sell securities for their own accounts only in accordance with the procedures described above in order to minimize the conflicts stemming from situations where the contemporaneous trading results in an economic benefit for Gramercy or its related person to the detriment of the client.

## **Item 12. Brokerage Practices**

In selecting brokers or dealers with which to execute transactions, Gramercy will use its best judgment to choose the broker or dealer most capable of providing the services necessary to obtain the most favorable execution. Gramercy does not have any formal soft dollar arrangements in place.

Trading securities can be complicated and some brokers are better equipped than others especially in emerging markets, where circumstances are not as regulated or transparent as in the developed world.

The *full range and quality of services available* will be considered in making determinations including:

- broker's familiarity with the company/market in which it trades;
- broker's execution capability (i.e., how many buyers/sellers the broker has access to and their ability to complete large orders);
- broker's commission rate; and
- broker's responsiveness and customer service.

When appropriate, Gramercy may, but is not required to, aggregate client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price achieved for such trades.

## **Item 13. Review of Accounts**

Consistent with our fiduciary responsibility to our clients and our obligation to manage accounts in our clients' best interests, Gramercy strives to ensure complete compliance with all clients' investment guidelines. Accordingly, Gramercy maintains a strict compliance system that captures the investment parameters from each client's guidelines and facilitates complete compliance within those parameters.

Gramercy utilizes the Bloomberg AIM (Asset and Investment Manager) system to monitor trading and portfolio guidelines and restrictions on a pre-trade, post-trade and end of day perspective. We are able to customize the specific investment guidelines and restrictions on a portfolio by portfolio basis in order to accurately measure them in a real-time environment. The compliance and risk management team monitors all trades through AIM's compliance manager

and violations manager functions on a real-time basis. All trades are run through pre-trade compliance and will be flagged and be unable to be sent to the trading desk if there is a breach of a restriction. A trade that breaches a restriction will need to be resized by the Portfolio Manager to ensure it is within the restriction of the strategy.

If a trade breaches a guideline (soft limit) in the pre-trade process, the Portfolio Manager will be notified of the breach, and approval from the compliance team must be granted prior to the trade being sent to the execution desk. In the event of this occurring, the compliance team will consult with risk management and trading to confirm permissibility of the breach. If risk management approves the trade, compliance will grant permission for it to be executed in the portfolio. If for some reason, a trade is able to circumvent the prior safeguards, and a trade breaches an investment restriction, it will not be permitted to be booked, and the system will notify the compliance team immediately.

In addition to the AIM system, Gramercy produces multiple end of day risk management and performance reports from our proprietary database. These reports include stop loss, long/short attribution, and compliance management. These reports are reviewed by the risk management team on a daily basis.

Additionally, Gramercy continuously monitors the price of all securities in accounts it manages. On a daily basis, Gramercy monitors and reviews news wires, selected newspapers and research material provided by brokerage houses as well as speaks to various contacts in local markets to review current investment views and develop new investment ideas. In addition, Gramercy's managing members and their designees perform such reviews on a daily basis.

Gramercy distributes electronic and written statements to clients on a monthly basis reporting the client's account's net return for the month and current capital balance. On a monthly basis, Gramercy also provides fund analytics to clients in electronic form as well as a monthly client report summarizing each Fund's current investment strategy and positions (custom reports are available upon request). From time to time ad hoc market commentary is generated by Gramercy's research team which includes white papers on investment topics pertinent within the market environment. Gramercy encourages annual face-to-face meetings with all clients. Annual audited fund-level financial statements are issued to clients.

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

Gramercy does not compensate independent third parties for client referrals.

## **Item 15. Custody**

This Item is not applicable.



## **Item 16. Investment Discretion**

Generally, our clients retain us on a discretionary basis. Gramercy's investment discretion and authority is subject to the limitations set forth in the governing documents and confidential offering memoranda of its Funds, copies of which are provided to investors in such clients. Generally, we have discretionary authority with respect to investment decisions subject to a particular client's objectives, strategies and restrictions.

With respect to the Managed Accounts, Gramercy has broad discretionary authority to determine the type and amount of securities to be bought or sold, with such authority limited, if at all, by such clients on a contractual basis. Any limitations in such authority would be set forth in the investment management agreement between Gramercy and a Managed Account. Gramercy may have the right to cause Managed Account assets to be invested in its Funds, in which case, the management and incentive fees or allocations charged or allocated would be governed by the governing documents of the relevant Fund.

Certain investments are uniquely qualified for just one strategy. Certain other investments are qualified for more than one Fund and/or account. It is Gramercy's basic policy that no client for whom Gramercy has investment decision responsibility shall receive preferential treatment over any other client. In allocating securities among clients, it is Gramercy's policy that all clients should be treated fairly and that, to the extent possible, all clients should receive equivalent treatment. Conflicts of interest will be affirmatively disclosed to underlying clients in the document related to such Fund or vehicle.

Due to the difference in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The following factors may be taken into account by Gramercy in allocating securities among investment advisory clients:

- client's investment objective and strategies;
- client's risk profile;
- client's tax status;
- any restrictions placed on a client's portfolio by the client or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended);
- size of client account;
- total invested positions;
- nature of the security to be allocated;
- size of available position;

- supply or demand for a security at a given price level;
- current market conditions;
- timing of cash flows and account liquidity;
- any other information determined to be relevant to the fair allocation of securities.

The above mentioned criteria, among others, will be used by Gramercy's Investment Committee and the appropriate Portfolio Manager(s) to determine whether or not a particular investment is suitable for a particular client. For discretionary managed accounts, Gramercy will also consider direct conversations with underlying management of such managed accounts for final decisions on whether or not an investment is suitable for their specific account.

To the extent a particular investment is suitable for more than one client, such investment will be allocated, *ceteris paribus*, between the clients pro rata based on assets under management or in some other manner that the Adviser determines is fair and equitable under the circumstances to all clients. All transactions will be made on a best execution basis.

Transactions in de minimis amounts of securities will be allocated in any manner deemed appropriate by the Adviser under the circumstances.

## **Item 17. Voting Client Securities**

To the extent Gramercy has been delegated proxy voting authority on behalf of its clients, Gramercy complies with its proxy voting policies and procedures that are designed to ensure that in cases where Gramercy votes proxies with respect to client securities, such proxies are voted in the best interests of its clients.

Gramercy's clients are generally not permitted to direct their votes in a particular solicitation.

If a material conflict of interest between Gramercy and a client exists, Gramercy will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action.

Clients may obtain a copy of Gramercy's proxy voting policies and procedures and information about how Gramercy voted a client's proxies by contacting Robert J. Lanava (Chief Compliance Officer) by email at [rl@gramercy.com](mailto:rl@gramercy.com) or by telephone at (203) 552-1900.

## **Item 18. Financial Information**

Gramercy does not require or solicit prepayment of any fees six months or more in advance. Therefore, we have not included a balance sheet for our most recent fiscal year.

Gramercy has never been the subject of a bankruptcy petition nor are we aware of any financial condition that is reasonably likely to impair our ability to meet our contractual obligations to clients.