

# Covariance Capital Management, Inc.

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This Brochure provides information about the qualifications and business practices of Covariance Capital Management, Inc. (“Covariance”). If you have any questions about the contents of this Brochure, please contact us at 713-770-2000 or at [Covariance\\_IR@covariancecapital.com](mailto:Covariance_IR@covariancecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Covariance is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This section is only discussing material changes which have been made since the last annual update of our brochure. Covariance has updated this brochure to reflect routine changes in its business practices. Below is a summary of the material changes made since the prior annual filing on March 31, 2014:

Item 1 has been amended to update the new address of the advisor.

Item 10 has been amended to update the description of material affiliated relationships.

Item 10 has been amended to update new related financial persons.

Item 14 has been updated to disclose a new uncompensated referral arrangement with an affiliate.

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## Item 4 – Advisory Business

Covariance was founded in 2010 as a wholly owned subsidiary of Teachers Insurance and Annuity Association of America, a New York stock life insurance company (“TIAA”). Covariance is registered as an investment adviser with the U.S. Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Covariance is also registered as a Commodity Pool Operator with the U.S. Commodity Futures Trading Commission (“CFTC”) under the Commodity Exchange Act (the “CEA”).

Covariance’s mission is to provide full service investment solutions for the management of endowment style portfolios. Covariance provides outsourced investment management services to clients through a multi-asset class, multi-manager investment program that offers each client a comprehensive and customized solution for managing its investment portfolio (the “Program”). The Program is structured for and offered to U.S. tax-exempt clients, such as education and healthcare institutions, foundations, and other not-for-profit organizations. Covariance may accept taxable and non-U.S. clients into the Program in certain circumstances.

Covariance assists clients in developing a comprehensive asset allocation plan, depending on each client’s investment needs. Covariance offers both separately managed portfolios and Funds. Implementation of the asset allocation plan is through the use of investment vehicles (the “Funds”) or separately managed portfolios (“Client Portfolios”) advised by Covariance. The Funds and Client Portfolios may invest in private investment funds and separately managed accounts managed by a third-party manager unaffiliated with Covariance (each, an “Underlying Manager,” and each such private investment fund or separately managed account, an “Underlying Fund”). Covariance may also invest its clients’ assets in such other securities and financial instruments as Covariance may deem appropriate. Covariance generally will manage client accounts on a discretionary basis, subject to written investment guidelines agreed to by Covariance and each client. However, clients are not able to impose restrictions on investments in any Underlying Manager or Underlying Fund unless agreed upon with Covariance. Clients can also invest in one or more Funds on a non-discretionary basis. Covariance does manage an investment account for TIAA as part of the Program (the “TIAA Account”) but does not currently plan to invest in investment vehicles managed or sponsored by its affiliates.

Covariance may provide investment management services that are not part of the Program (“Non-program services”), including but not limited to, advising separate accounts or managing legacy assets held by a client outside of its interest in the Program. Fees for Non-program services may be determined upon a case by case basis in negotiation with the client.

Covariance manages \$1,429,570,588 of client assets as of December 31, 2014 on a discretionary basis.

## **Item 5 – Fees and Compensation**

Covariance charges clients a fee that is based on the value of the assets under management in each client's account. In addition to the compensation paid to Covariance, management or performance fees may be paid to the Underlying Fund.

Covariance's fee for the Program is based upon several factors including whether the client is investing in a comprehensive investment ("outsourced CIO") solution or a subset of Funds. The fees for clients subscribing to Covariance's outsourced CIO solution generally start at an annual rate of 0.50% of the client's assets under management. Given the institutional nature of Covariance's clients, Covariance's fees, which are negotiable and may vary, will be dependent on the specific needs of each client. For example, the fee for clients that invest primarily in the Funds that are alternative funds generally starts at an annual rate in the range of 0.75% to 1.00% of the assets under management and may vary depending on the complexity of the underlying investment strategy. As described in Item 4, fees for Non-program services are negotiable and may vary.

Clients are subject to indirect fees and expenses associated with the Funds and Client Portfolios, such as administration and custody fees. Additionally, Underlying Funds will have their own costs, expenses and fees, including for administrative, custodial and brokerage services. These may have the effect of reducing the value of such investments. Covariance may also utilize various hedging strategies that may entail using brokerage services. Please see Item 12 for further discussion of Brokerage Fees.

Covariance's Management fee is calculated by a third-party administrator for the Funds. Covariance will calculate the Management fee separately for Client Portfolios. Management fees are payable monthly in arrears, subject to negotiation. Covariance will deduct the appropriate amount from each Fund or Client Portfolio. Covariance may prorate its fees for Non-program services, when applicable based upon the number of days such assets were under management versus the total number of days in the month.

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

Covariance does not currently charge any performance-based fees. However, incentive or performance fees may be charged by Underlying Funds.

## **Item 7 – Types of Clients**

Generally speaking, Covariance seeks to provide investment advice to trusts, foundations and other not-for-profit entities that have been organized to serve educational, charitable and

healthcare institutions. Covariance also manages an investment account for TIAA.

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

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

Covariance has designed an Asset Allocation framework using a combination of client input, proprietary analysis, and a portfolio optimization model. Grounding the framework is a set of forward-looking capital market assumptions developed by Covariance using a proprietary blend of market expectations and analysis of historical data. In addition, Covariance's risk team takes into account client specific obligations and constraints, including spending policy, asset class limitations and liquidity requirements.

As discussed above, Covariance assists clients in developing a comprehensive asset allocation plan implemented through the use of the Funds or Client Portfolios, which in turn, are invested with third-party Underlying Managers across a range of both traditional and alternative asset classes. The strategies used include, but are not limited to, various long-only, long/short, distressed debt, arbitrage or relative value strategies. Some Underlying Funds also follow global macro and systematic trends. Covariance may also recommend Underlying Funds that may invest in real assets or private capital.

Underlying Manager selection, approval and monitoring are critical elements of the Program. Covariance has designed a comprehensive, multi-step process for sourcing, approving and monitoring Underlying Funds. Covariance's "Investment Team" is comprised of certain members of Senior Management including the CEO, President and Chief Investment Officer, Co-Chief Investment Officer, Directors and Associates/Analysts that support them. Members of the Investment Team meet with a wide range of Underlying Funds to identify and evaluate potential funds and managers that may meet Covariance's criteria for addition to the platform. The Investment Team also meets with many types of Underlying Funds to seek out new opportunities and alternatives that have developed in the marketplace.

Before the Investment Team decides to invest, the prospective Underlying Fund must pass a comprehensive evaluation process led by members of the Investment Team with experience in the applicable class and/or investment strategy. As part of its review, the Investment Team interviews personnel (often at multiple levels in the organization) and evaluates numerous factors relevant to the Underlying Funds. Generally, the Investment Team considers: the third-party manager's investment and risk management process, its prospective ability to earn a net rate of return that is above a passive approach on a risk adjusted basis, the quality of the investment team and their incentives and compensation, and the structure and quality of middle and back office operations. The Underlying Managers and Underlying Funds are subject to ongoing qualitative and quantitative monitoring.

## **Covariance Due Diligence Process**

Covariance has designed an institutional quality, multi-step investment process for sourcing, approving, and monitoring Underlying Funds. Our bottom-up analysis of individual managers is research-driven and requires a clear understanding of each manager's fundamental investment approach. All primary research is conducted in-house by our investment team. The CIO and Co-CIO directly participate in all key aspects of the manager due diligence process.

Manager selection typically involves at least one site visit by Covariance's investment team and at least one visit by Covariance's operational due diligence team, in addition to numerous telephone calls and/or videoconferences. These due diligence requirements are the same for both domestic and internationally-based managers. Covariance's investment team evaluates numerous factors, which generally include but are not limited to:

- Investment process, security selection and portfolio construction
- Risk management process and approach
- Actual past performance and potential to generate alpha over the long-term
- Quality and stability of the investment team, including their compensation and incentives

In addition, our dedicated operational due diligence team conducts background checks, legal reviews, and general operational reviews. The risk team will perform a quantitative analysis on potential investments on a stand-alone basis and also assess the impact of adding the potential investment to the existing portfolio.

Once selected, managers are monitored on a continuous basis by the investment, operational due diligence and risk teams. Our monitoring process is meant to uncover potential problems with managers before they materially take effect. We continuously monitor for evidence of problems such as style drift, excessive growth in assets, employee turnover, breakage of risk management rules, and potential back office problems (such as changes in service providers, contact with regulators, employee turnover, and insufficient infrastructure to handle new or increased trading volumes).

All potential concerns are discussed at Investment Committee and Risk Committee meetings and result in either additional monitoring or termination. For those that merit additional monitoring, the Investment Committee will develop a plan for further monitoring steps until the manager no longer requires additional monitoring or is terminated.

## **Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. The Funds and Client Portfolios may lose all or a substantial portion of its investments. Prospective clients are particularly cautioned that past performance is no guarantee of future results. The degree to

which investment risks apply to a specific strategy may depend on the risks applicable to each Underlying Manager and Underlying Fund and may change over time. Also, the regulatory regime applicable to Covariance, the Funds, Client Portfolios or the Underlying Manager and Underlying Fund is subject to change and may impact client investment returns. Investments are long-term commitments and there is no assurance of the size or timing of any distribution to clients.

As discussed above, Covariance will seek to construct for each client for which it exercises full investment discretion a broadly diversified portfolio, by Underlying Fund and asset class, with a long-term investment horizon. Clients should note that investing involves certain risks, including but not limited to the following:

- Covariance manages the Funds for the benefit of clients as a whole and not any particular client.
- Covariance may not be able to make investments on behalf of the Funds or Client Portfolios on attractive terms or in accordance with preferred timing.
- Covariance relies on the services of third party service providers, such as accountants, administrators, attorneys, brokers, custodians and other agents. Failure by those third parties to perform or otherwise satisfy their duties may have a material impact on investments.
- Client interests in the Funds may be subject to dilution from subsequent investors participating in the Funds.
- Covariance may invest in select Underlying Funds pursuant to a Global Investment Strategy. Performance may be impacted by the financial health and stability of the host country. Changes in the host country's laws, government, economy or exchange rate may adversely affect performance.
- Covariance may make certain investments that risk exposure to the securities of non-US issuers. Such investments may present currency, transfer, legal, regulatory, political, accounting, tax and other risks.
- Covariance may invest in illiquid investments, which may face volatile market prices, restrictions on sale or valuation concerns.
- Certain Funds or Client Portfolios may use derivatives or be exposed to derivatives in the Underlying Funds. These strategies impose certain costs which may adversely impact clients' interests and involve certain risks, such as counterparty default, operational risk, margin risk, regulatory risk and possible accentuation of losses or reductions in gains.

Similarly, the types of securities generally purchased by or for the Funds and Client Portfolios may impact a client's investment return. For example:

- Underlying Funds may have volatile operating results, experience operational failures, or substantial declines.
- Underlying Fund performance may materially diverge from their respective benchmarks for extended periods of time.



- All Underlying Funds may suffer substantial drawdowns in the event of a significant market decline.
- Clients may not have the right to demand specific modifications to the operations of the Underlying Funds because they will typically have the exclusive right and authority to determine the manner in which the Underlying Funds shall respond to market change.

In addition to the Program withdrawal restrictions noted in Item 16, Program clients must generally request withdrawals substantially in advance. Program clients may not withdraw any portion of the assets in their accounts that is invested in, committed to or reserved for investment in a Fund that invests in private equity-style closed-end funds. Covariance may suspend rights to make or receive distributions from or with respect to one or more Funds. A withdrawn client's share of such illiquid investments generally will be placed into a liquidating account from which distributions will be made only as liquidity is achieved. Certain withdrawal requests may be satisfied via in-kind distributions of securities at the discretion of Covariance.

The Underlying Funds may have similar investment objectives and different managers may compete for and make overlapping investments in the same underlying investments, resulting in the Funds or Client Portfolios having increased exposure with respect to the same underlying investments.

Certain of the Underlying Funds (the "Leveraged Funds") may use leverage. Leverage may take the form as Underlying Funds deems appropriate. The amount of leverage which these Leveraged Funds, individually or in the aggregate, may have outstanding at any time may be substantial in relation to their capital. Leverage may increase or decrease the investment return and /or volatility of a Leveraged Fund. Limited partners in the Leveraged Funds (including the Funds) still face the risk of losing their entire investment.

Certain of the Underlying Funds may make investments in securities or other assets, such as bank loans that are subject to legal or other restrictions on transfer or for which no liquid market exists. The Underlying Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities and other types of illiquid assets may sell at a price lower than similar investments that are not subject to restrictions on resale.

The Underlying Funds may be entitled to receive management fees, carried interests or other forms of compensation in respect of such funds. There will be no reduction in the Management Fees payable to Covariance with respect to the portion of the assets in any Client Account that is invested in such Underlying Funds. Furthermore, Underlying Funds that are internationally-focused and/or domiciled may be prone to additional risks, e.g., they may have custody arrangements that provide for custody to occur outside the U.S., which could cause administrative problems.

The information contained in this Brochure is not intended to replace the risk disclosures found

in the Offering Memorandum or investment management agreement. Clients should carefully review the Offering Memorandum or investment management agreement for information about risks associated with investing in the Program.

## **Item 9 – Disciplinary Information**

Not applicable.

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

Covariance is a wholly owned subsidiary of TIAA-CREF Redwood, LLC, which is a wholly owned subsidiary of TIAA, a NY stock life insurance company. Covariance and TIAA have entered into a service arrangement whereby TIAA, directly or through its subsidiaries, may provide a variety of services to Covariance that may be deemed material to Covariance's investment advisory services. Such services include general corporate support, human resources, legal, compliance and marketing services.

As noted in Item 4, Covariance is registered with the U.S. Commodity Futures Trading Commission as a Commodity Pool Operator. Various members of the Covariance staff have registered as associated persons of the firm and include the President and Chief Investment Officer, Co-Chief Investment Officer and the Director, Business Development.

As noted in Item 4, Covariance manages the TIAA Account, an investment account for TIAA which constitutes a sizable portion of overall AUM. A Fund or Client Portfolio may invest in an Underlying Fund or other investment at substantially the same time as the TIAA Account. There can be no assurance that the Funds or Client Portfolios would dispose of such an investment at substantially the same price or time as the TIAA Account due to many unforeseeable factors at the time of investment, including client withdrawals, availability of capital for follow-on investment and other needs, differing tax basis in the investment, differing financing terms applicable to different investments, different time horizons, and differing investment objectives and investment programs. One Fund or Client Portfolio may make investments or engage in other activities that express inconsistent views with respect to a security or other market conditions as compared with those of another Fund, or another Client Portfolio or the TIAA Account.

Covariance may determine that a particular investment is appropriate for the TIAA Account and/or the Funds and Client Portfolios. If this investment opportunity is one in which the number of interested investors exceeds its capacity, Covariance may have to determine to what extent to offer the opportunity to the TIAA Account and/or the Funds and Client Portfolios. In

these circumstances, Covariance will adhere to its Fair Allocation Policy, which will be provided to clients and prospective clients upon request.

As noted in Item 14, Covariance is affiliated with a registered broker-dealer, Teachers Personal Investors Services, Inc., the principal underwriter of the TIAA-CREF family of mutual funds.

On October 1, 2014, TIAA-CREF closed a transaction to acquire Nuveen Investments, Inc. (“Nuveen Investments”). TIAA-CREF’s financial industry entities may be considered related persons under the Investment Advisers Act of 1940 (“Advisers Act”).

Each of TIAA and its affiliates, on one hand, and the Nuveen Investments affiliates, on the other hand, may distribute, make referrals of, use or recommend investment products and services of the other (including funds and pooled investment vehicles, and managed account services), and may pay and receive fees and compensation in connection thereto. In particular, broker-dealers affiliated with each of TIAA and Nuveen Investments act as a distributor with respect to and/or promote and provide marketing support to each other’s proprietary mutual funds (i.e., Nuveen Funds and TIAA-CREF Funds), and broker-dealer associated persons are internally compensated for those activities. Further, sales personnel may provide referrals to affiliates in certain limited circumstances and such personnel may be internally compensated in connection with such activities. A potential conflict may exist with respect to such distribution, referrals, use or recommendation of products and services as a result of TIAA’s indirect ownership of Nuveen Investments.

## **Item 11 – Code of Ethics**

Covariance has adopted a Code of Ethics pursuant to Rule 204A-1 of the Advisers Act which applies to all Covariance staff. Covariance’s Code of Ethics governs, among other things, the personal securities trading activities of all Covariance employees and members of their households. In addition to personal securities trading procedures, the Code of Ethics includes provisions on the confidentiality of client information, a prohibition on insider trading, a prohibition on circulating false rumors, restrictions on the acceptance of gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other matters. In addition, Covariance has adopted a policy that prevents its investment personnel from providing investment advice or portfolio management services for compensation to any person other than a client of Covariance, unless specifically permitted by Covariance’s Chief Compliance Officer. The Code of Ethics provides that Covariance staff must at all times place the interests of clients above their own. All Covariance staff must acknowledge the terms of the Code of Ethics when first hired and annually thereafter or when amended. Covariance will provide a summary or a copy of Covariance’s Code of Ethics to clients and prospective clients upon request.

As discussed in Item 10, Covariance may determine that a particular investment is appropriate for the TIAA Account and/or the Funds and Client Portfolios. If this investment opportunity is

one in which the number of interested investors exceeds its capacity, Covariance may have to determine to what extent to offer the opportunity to the TIAA Account and/or the Funds and Client Portfolios. In these circumstances, Covariance will adhere to its Fair Allocation Policy, which will be provided to clients and prospective clients upon request.

While Covariance has no present intent to engage in transactions with clients in which it would act as principal on behalf of its own account, it reserves the right to do so in the future if appropriate. In the event Covariance does engage in principal transactions and to the extent required by law, Covariance will provide each affected client with disclosure that Covariance is acting in such capacity and the relevant terms of such transaction and obtain the client's consent to such transaction.

Generally, investment vehicles and accounts managed by Covariance will invest primarily in Underlying Funds. Such Underlying Funds may invest in some of the same securities as affiliates of Covariance, over which Covariance has no control. Except, with respect to the TIAA Account, Covariance and its subsidiaries do not have discretion over the investments made by and are legally separate from all TIAA subsidiaries.

Covariance and its affiliates may effect cross trades involving advisory accounts in which a security is sold from one account advised by Covariance and bought for another such advised account through a custodial transfer or broker-dealer. Covariance will effect such cross trades when Covariance believes it is in the best interests of all clients involved. Trades will be effected at a security price that Covariance has a reasonable basis for believing is fair and equitable to both the buyer and the seller.

## **Item 12 – Brokerage Practices**

### **Selection of Brokers**

Covariance anticipates that its direct use of broker-dealers may be infrequent since the Funds and Client Portfolios are invested primarily in the Underlying Funds. Covariance has no direct authority or control over the use of broker-dealers by the Underlying Funds.

When Covariance does use broker-dealers it may consider many factors when selecting brokers-dealers such as: speed and efficiency of execution of transactions; the best obtainable price; the quality and reliability of the brokerage services offered, and the reasonableness of commissions in relation to the value of the brokerage and other transaction services provided. Cost is only one among many factors that Covariance may consider in its discretion, which may cause a client account to pay a commission for effecting a transaction in excess of the lowest available market price when Covariance concludes in good faith that the commission paid is reasonable in relation to the quality of execution and other factors. Covariance currently has no soft dollar arrangements. As mentioned above, since Covariance does not control the use of broker-dealers by the Underlying Managers, those managers may use soft dollars. Covariance does not allow

related persons to acquire products or services with Covariance client brokerage commissions.

### **Aggregation of Trade Orders**

Covariance may aggregate purchase or sale orders for various client accounts with other accounts pursuant to the best interests of the client. In the event circumstances arise where Covariance determines that, while it would be both desirable and appropriate to aggregate client orders for a particular security or other investment, there is a limited supply or demand for the security or other investment, Covariance will seek to allocate such investment opportunities among clients fairly and equitably over time in accordance with its Fair Allocation Policy. Covariance is not required to assure equal treatment among all of its clients nor is it required to ensure that each such opportunity is proportionally allocated among participating accounts. If a trade error occurs when Covariance purchases or sells securities, including interests with Underlying Funds, Covariance will seek to correct such error as soon as reasonably practicable. When correcting its trade errors, Covariance will seek to ensure that the best interests of its clients are served. For trade errors that occur at the Underlying Fund level, those managers' trade error policies and procedures will govern the resolution of the trade error.

## **Item 13 – Review of Accounts**

The Covariance Risk Committee reviews each client's holdings at least quarterly for consistency with each client's investment guidelines and to ensure compliance with any applicable investment restrictions and Covariance's investment parameters. This committee currently includes Covariance's Chief Risk Officer, Chief Executive Officer, Chief Investment Officer, Co-Chief Investment Officer and Chief Operating Officer.

Each client receives an electronic monthly account statement and, as applicable, such other periodic reports as may have been agreed upon between Covariance and such client. The statement includes for each fund: the beginning and ending net asset value, amounts subscribed and redeemed and net income or loss and rates of return. On a quarterly basis or at such other times as reasonably requested, Covariance's investment and client relationship personnel will report to each Program client regarding its account's investment strategy, and asset allocation.

Certain clients in the Program may request that Covariance provide investment advice with respect to assets of such client in addition to its investment in the Program. Those assets will be accounted for separately in accordance with Covariance's agreement with such client.

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

From time to time institutional clients may be referred to Covariance by registered representatives employed by Teachers Personal Investors Services, Inc. ("TPIS"). Covariance does not directly or indirectly compensate TPIS or its employees for referrals.

## **Item 15 – Custody**

State Street Bank and Trust Company is the custodian for all Funds and Client Portfolios advised by Covariance. International Fund Services (IFS), and Institutional Investors Services Group (IIS), are divisions of State Street Bank and provide statements electronically.

## **Item 16 – Investment Discretion**

Covariance's discretionary authority is usually detailed in each client's investment management agreement, its supplements or its amendments, along with the client's investment objectives and any applicable guidelines and restrictions. Investment management agreements with Covariance typically appoint Covariance as the client's attorney-in-fact with full power and authority to supervise and direct the investment and reinvestment of the assets in the client's account.

Generally, investment management agreements are terminable after one year. However, prior to three years, an early withdrawal fee may apply. The early withdrawal fee terms, if applicable, are set forth in each client's investment management agreement. In addition, investment management agreements may be terminated (i) by Covariance for any reason upon 30 days prior written notice to the client and (ii) by the client upon 45 days' prior written notice to Covariance upon material breach by Covariance of the investment management agreement with such client if Covariance is unable to cure such breach within 30 days of such notice. Termination terms may be negotiated on a client by client basis.

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

Covariance has adopted and implemented written policies and procedures pursuant to Rule 206(4)-6 of the Advisers Act that are reasonably designed to ensure that client securities are voted in the best interest of clients. These procedures include how Covariance addresses material conflicts that may arise between Covariance's interests and those of its clients.

In general, the securities that are held by Program clients are interests in the Funds or Client Portfolios. These, in turn, invest in Underlying Funds some of which may hold direct interests in securities. Therefore, Covariance is not typically in a position to vote securities on behalf of

clients. As a general matter, Clients, by way of investment management agreement and/or Fund PPM/Subscription Documents, have granted Covariance with the authority to vote any client securities that may come up for vote.

When the issue presents itself, Covariance's practice is to delegate its authority to vote proxies in each client's account to a proxy voting service or the appropriate external Underlying Manager, who will vote all proxies according to their respective proxy voting guidelines, unless Covariance affirmatively instructs them to the contrary. All actual or potential conflicts that may arise will be resolved in accordance with each external Underlying Manager's proxy voting guidelines and/or policies and procedures.

When Covariance is called upon to vote proxies, Covariance's general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "proxies") relating to managed client securities, including interests with Underlying Funds, in a manner that serves the best interests of the investment vehicles managed by Covariance and the client accounts invested therein, as determined in its discretion, taking into account that one of the key factors Covariance considers when determining the desirability of investing in a particular investment fund is the quality and depth of its management.

Prior to exercising its voting authority in respect of client securities, Covariance reviews relevant facts and determines whether a material conflict of interest may arise due to business, personal or family relationships of Covariance or its staff, on the one hand, and any client, on the other hand. If a material conflict exists, Covariance will adhere to its Proxy Voting Policy to ensure that its voting decision is in the best interest of the client and not a product of the conflict of interest. Among other actions, the Policy directs Covariance to seek the advice of the Chief Compliance Officer or to defer to the voting recommendation of an independent third party provider or fiduciary, such as a proxy voting service. Depending on the particular circumstances involved, the appropriate resolution of one conflict of interest may differ from the resolution of another conflict of interest, even though the general facts underlying both conflicts may be similar (or identical).

Clients may obtain information about how Covariance voted with respect to their securities by contacting the firm's Director within Business Development. Clients and prospective clients may request a copy of Covariance's Proxy Policy by contacting Covariance at the address shown above.

## **Item 18 – Financial Information**

Not applicable.

## **Item 19 – Requirements for State Registered Advisers**

Not applicable