

# **OPTIMA**

## **OPTIMA FUND MANAGEMENT LLC**

**FORM ADV PART 2A – DISCLOSURE BROCHURE**

**September 29, 2017**

**10 EAST 53RD STREET, 29TH FLOOR  
NEW YORK, NY 10022  
212-484-3000  
[www.optima.com](http://www.optima.com)**

**This brochure provides information about the qualifications and business practices of Optima Fund Management LLC. If you have any questions about the contents of this brochure, please contact us at (212) 484-3000 and/or by email at [info@optima.com](mailto:info@optima.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 Optima Fund Management LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Optima Fund Management LLC is an SEC-registered investment adviser. Being a registered investment adviser does not imply a certain level of skill or training.**

**Item 2      Material Changes**

There are no material changes since the last ADV update on March 29, 2017.

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#### **Item 4      Advisory Business**

- A. Optima Fund Management LLC (“**Optima**”) is an independently owned SEC-registered investment adviser. Optima is wholly owned by Optima Group Holdings LLC, a holding company for the Optima Fund Management group of entities that were formed by the Optima Group Holdings LLC’s principal owner, D. Dixon Boardman in 1988. Mr. Boardman currently owns in excess of 25% of the Optima Group Holdings LLC. Optima currently has 34 full-time employees.
- B. Optima offers advice to commingled investment vehicles that it or its affiliates sponsor (each a “**Client Pooled Fund**”, collectively the “**Client Pooled Funds**”). The Client Pooled Funds may generally invest in other commingled investment vehicles that trade the following types of investments: exchange-listed securities; securities traded over the counter; foreign issuers; warrants; corporate debt securities (other than commercial paper); United States government securities; options contracts on securities and commodities; futures contracts; currencies; commodities; and futures.

In addition, Optima offers advice to two sub-funds of an Irish collective asset-management vehicle (“**ICAV Accounts**”) that trade in exchange-listed securities.

Optima also offers advice on a customized basis to segregated accounts or to commingled investment vehicles managed by independent third parties (each a “**Client Managed Account**”, collectively the “**Client Managed Accounts**”) that in turn invest generally in other commingled investment vehicles. Two Client Managed Accounts invest directly in exchange-listed securities and derivative instruments relating to currency forwards and/or stock index futures contracts. Investment advice given to Client Managed Accounts may be discretionary or non-discretionary depending on specific agreement between the client and Optima.

- C. Client Pooled Funds invest in different investment strategies and may have different investment restrictions and Optima customizes the investment portfolio of such Client Pooled Funds accordingly. With respect to Client Managed Accounts, Optima will work with the investor or sponsor to tailor the investment program to the investor’s investment objectives, risk tolerance and any investment restrictions such investor may want to impose. In each case, Optima monitors the investments of such Client Pooled Funds and Client Managed Accounts in light of their respective investment objectives, risk tolerance, and investment restrictions, if any.
- D. Optima does not participate in wrap fee programs.
- E. As of August 31, 2017, Optima managed \$925,043,000 on a discretionary basis (14 clients) and \$620,752,000 on a non-discretionary basis (10 clients).

## **Item 5            Fees and Compensation**

- A.     The management fees charged to the multi-manager Client Pooled Funds range from an annual rate of 1.0% to 1.5% of net assets at the end of each month. If a Client Pooled Fund invests in another entity for which Optima or an affiliate serves as the general partner or investment manager, then either that portion of the entity's assets represented by such an investment are excluded from the calculation of net assets for the purposes of calculating the management fees, or the fees received by the affiliate are refunded to the Client Pooled Fund in full. Optima generally charges a lower fee (0.75% per annum) when acting in the role of sub-adviser.

Certain of the multi-manager Client Pooled Funds charge investors in these Client Pooled Funds performance-based allocations of 10% of the profits earned by such investors, subject to a high watermark and loss carryforward. These performance-based allocations are credited to an affiliate of Optima which acts as managing member/general partner to such Client Pooled Funds. Performance based fees are not assessed to employees of Optima that are investors in these Client Pooled Funds.

A single manager Client Pooled Fund is advised by an independent third party adviser. Optima receives 0.625% of net assets per investor below \$10 million and 0.5% of net assets per investor above \$10 million from such Client Pooled Fund.

Fees charged to Client Pooled Funds are set forth in the offering memorandums for the respective Client Pooled Funds and are not negotiable. Fees may vary according to the share class of the Client Pooled Fund.

One discretionary Client Managed Account is charged the following fee: (i) 0.75% of the first \$100 million in net assets; (ii) 0.50% of net assets above \$100 million and up to and including \$150 million; and (iii) 0.40% on net assets over \$150 million. Two Client Managed Accounts are charged a management fee at the annual rate of 0.40% of net assets in investments in non-affiliated funds, and bear the cost of whatever the fees payable to the Registrant from any investment in affiliated funds of the Registrant. The two ICAV Accounts are charged management fees of 1% per annum on the institutional classes of shares and 1.75% per annum on the retail classes of shares of the Accounts. Two other discretionary Client Managed Accounts are charged between 0.75% and 1.00% per annum. There are four Client Managed Accounts that are non-discretionary, which are charged fees according to the level of services agreed to between the client and Optima. One such Client Managed Account is charged a \$125,000 annual. Another Client Managed Account is charged a management fee of 0.75% of net assets and an annual incentive fee of 5% of the profits earned. A third Client Managed Account is charged 0.8% of net assets, and the fourth Client Managed Account is charged 0.75% of net assets.

Optima also acts as an investment adviser to two high net worth individuals (“**Client PWM Account**”). One Client PWM Account is charged a quarterly management fee in arrears calculated on net assets in the account at the annual rate of 1.25% of the first \$5 million in net assets, 1.0% on the next \$5 million in net assets and 0.75% on the net assets thereafter. In addition, this Client PWM Account is charged an annual incentive fee of 5% of the profits earned in the Client PWM Account each year in excess of a hurdle rate. The second Client PWM Account is charged a quarterly management fee in arrears calculated on net assets in the account at the annual rate of 1% of net assets and an annual incentive fee of 5% of the profits earned. If a Client PWM Account invests in another entity for which Optima or an affiliate serves as the general partner or investment manager, then the management and performance fees received by the affiliate are refunded to the Client PWM Account in full.

- B. Any fees earned by Optima are charged directly against the assets in a Client Pooled Fund’s account or Client Managed Account held by the independent custodian of the Client Pooled Fund or Client Managed Account. As Client Pooled Funds and Client Managed Accounts use independent administrators, Optima reviews the calculation of the fee prepared by the administrator, but it is the administrator who instructs the custodian to make payment of the fee to Optima. In the case of Client PWM Accounts, Optima prepares the calculation of the fee and presents the invoice to the Client PWM Account’s custodian for payment with a copy of the invoice being sent to the client.

Upon an investor’s withdrawal of its investment from a Client Pooled Fund, any fees owed to Optima are prorated to the date of withdrawal. Upon the termination of an advisory agreement with a Client Managed Account or Client PWM Account, any fees owed to Optima are prorated to the date of termination.

- C. Where Client Pooled Funds are allocated to other investment managers and/or commingled investment vehicles pursuant to Optima’s recommendations, the Client Pooled Fund is charged an additional fee by that investment manager and/or investment vehicle, as the case may be. Fees charged by such investment managers and/or investment vehicles may range from a 0% to 3% management fee and a 0% to 30% performance fee.

Investors in Client Pooled Funds also bear third party fees charged by the Client Pooled Fund’s auditors and any administrator’s fees as set forth in the Client Pooled Fund’s offering memorandums. Client Managed Accounts and Client PWM Accounts bear additional third party fees charged by such account’s auditor, administrator and custodian.

- D. Optima does not charge any fees to Client Pooled Funds, Client Managed Accounts or Client PWM Accounts in advance.
- E. No employee of Optima receives compensation for selling securities or other investment products.

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

Optima receives performance-based fees from some Client Managed Accounts and Client Pooled Funds, but not others.

The receipt of performance-based fees from some Client PWM Accounts and Client Pooled Funds creates conflicts of interest. For instance, the differing fee structures of different Client Pooled Funds may create an incentive for Optima to (i) cause the funds for which it receives performance-based fees to make investments that are riskier or more speculative than would be the case if Optima did not receive a performance-based fee, (ii) recommend an investment for one Client Pooled Fund over another (i.e. to direct investments in favor of a Client Pooled Fund receiving a performance-based fee), or (iii) allocate investment opportunities to certain more profitable Client Pooled Funds. To manage these conflicts, Optima has developed a Fairness of Allocation Policy.

### Fairness of Allocation Policy

Certain of the Client Pooled Funds, Client Managed Accounts and Client PWM Accounts advised by Optima (collectively “**Optima Clients**”) may have similar investment strategies and policies. As such, Optima may invest several Optima Clients in the same underlying investment vehicle. When the availability of investment with a particular investment vehicle is limited, Optima intends to allocate such opportunity among applicable Optima Clients in accordance with its policy on the fairness of allocations in such manner as Optima deems equitable to all parties. Optima will consider the following factors, among other things, in allocating investment opportunities among Optima Clients: (i) an Optima Client’s requirements for underlying liquidity; (ii) an Optima Client’s requirements for specific asset allocation; (iii) penalty fees associated with such an investment; (iv) an Optima Client’s request to invest with a particular manager or to not invest with such manager; (v) cashflows (inflows and outflows) and available cash balances; (vi) time of entry of such an investment opportunity; (vii) portfolio construction constraints; (viii) materiality of position; (ix) an Optima Client’s ERISA capacity; (x) an Optima Client’s requirements to hold an actual meeting with underlying managers (which may throw off timing for a particular investment) and (xi) whether the allocation is a newly launched investment vehicle and the investment opportunity has been allocated to such new Optima Client for initial ramp up purposes.). No one Optima Client will be entitled to priority of choice as among available investments.

The Research Department of Optima prepares a monthly report with a rationale for investments made in Client Pooled Funds each month. This report is designed to ensure that all conflicts of interests regarding investments made by Client Pooled Funds are consistent with the Fairness of Allocation policy.

## **Item 7      Types of Clients**

As of the date of this brochure, Optima provides discretionary and non-discretionary investment advice to 9 commingled multi-manager Client Pooled Funds, 9 customized institutional Client Managed Accounts and 4 multi-manager programs established for a high-net worth individual or

families. Optima is also the investment adviser of a single-manager commingled investment, the day-to-day investment decisions of which are delegated to third party investment advisers. Optima also currently acts as the Sub-Investment Adviser to a Client Pooled Fund called The Mellon Optima L/S Strategy Fund LLC which is an investment company registered under the Investment Company Act of 1940, as amended.

The investors in the Optima sponsored 9 commingled multi-manager Client Pooled Funds are comprised of approximately 68% high net worth individuals/family offices and 32% institutional investors. Such Client Pooled Funds are structured as partnerships, limited liability companies, open end investment companies and unit trusts.

In order to make an investment in an Optima sponsored Client Pooled Fund, an investor must qualify as an "accredited investor" within the meaning given to such term in Regulation D under the U.S. Securities Act of 1933 as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and/or a "qualified purchaser" within the meaning given to such term under the U.S. Investment Company Act of 1940, as amended.

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

A. Regarding Asset Allocation, Optima can consider a wide range of inputs to its analysis, including the global macro outlook, specific market fundamentals and valuations, technical analysis and event-related factors. Optima considers this type of analysis in forming its outlook for capital markets and specific hedge fund strategies.

Regarding Manager Selection, Optima considers qualitative and quantitative factors covering 1) organizational background and ownership structure; 2) personal and professional background and character of the principals; 3) investment philosophy and style; 4) investment techniques in the areas of asset allocation, security selection, portfolio construction and risk management; 5) portfolio characteristics and performance; 7) reporting and client services and 8) operational, compliance and legal items.

Regarding Portfolio Construction, Optima incorporates its views on asset allocation and manager selection to build multi-manager portfolios that adhere to the investment guidelines and restrictions of each specific portfolio. Consideration for the principals of modern portfolio analysis are incorporated and include historical and forecasted rates of return, risk characteristics of investments and correlations among different asset and investment types. As part of this evaluation, Optima may incorporate a number of factors such as its macroeconomic outlook, strategies and asset classes available, historical and expected returns and risks, liquidity profile of strategies and investments, level of conviction amongst investments and inter-manager and inter-strategy correlations in the portfolio construction process. Other considerations during the portfolio construction process include the near term visibility on portfolio level cash flows and Optima's Fairness of Allocation Policy.

The main sources of information Optima uses in its investment process include financial literature such as newspapers and magazines, research materials prepared by others, statistics and investment performance of macro indicators, market indices, publicly filed documents with regulators, media reports of hedge fund manager activity, third-party money managers

and commingled investment vehicles. These data and performance information are typically obtained directly from managers, audited financial statements, K-1's, published sources and subscription services.

Regarding staffing organization supporting Optima's research efforts, the Research Department of Optima consists of research analysts and sector heads. Research analysts generally focus on a specific sector in an analytical capacity, while sector heads oversee the work of analysts and perform analysis and portfolio management duties relating to asset allocation, manager selection and portfolio construction and monitoring.

Specific strategies used to implement any investment advice given to clients can include long term and short term purchases, trading (securities sold within 30 days), short sales, margin transactions, option writing, including covered options, uncovered options, or spread strategies, futures, commodities, and currencies.

Investing in securities involves the risk of total loss that clients should be prepared to bear.

- B. The following risks are involved in the investment strategies utilized by Optima and the commingled investment vehicles ("**Underlying Funds**") in which Client Pooled Funds, Client PWM Accounts and Client Managed Accounts invest:

**Dependence on the Advisors of Underlying Funds.**

All decisions with respect to the trading activities of the Underlying Funds are made by the managers of the Underlying Funds. Investors will not have the opportunity to evaluate fully for themselves the relevant economic, financial, and other information regarding the Underlying Fund's investments. Investors are dependent on the abilities of the managers of the Underlying Funds. Accordingly, no person should purchase interests in a Client Pooled Fund unless he or she is willing to entrust all aspects of the trading activities of the Underlying Fund to the managers of the Underlying Funds.

**Turnover.**

The Client Pooled Fund's activities involve investments in Underlying Funds or segregated accounts that may invest on the basis of certain short-term market considerations. The turnover rate is expected to be significant, potentially involving substantial brokerage commissions and fees. Optima will have no direct control over this turnover. Furthermore, if a segregated account manager is terminated by Optima, it is expected that its portfolio would be liquidated and the cash proceeds reinvested by a replacement segregated account manager. This policy could create substantial turnover rates and corresponding brokerage commissions and fees.

**Multi-Managers.**

While use of multiple Underlying Funds may provide some diversification of investment risk, no assurance can be given that such diversification will occur, or that if it does, that it will increase, rather than reduce, potential net profits of the Fund. Also, the use of multiple Underlying Funds may cause the Client Pooled Fund indirectly to hold opposite positions in an investment, thereby decreasing or eliminating the possibility of positive returns from such investment. It is possible that several advisors may take substantial positions in the same security or group of securities at

the same time, leading to a lack of diversification. It is also possible that the advisors may on occasion compete with each other for similar positions at the same time. In addition, the use of multiple investments subjects the Client Pooled Fund to additional costs that will be borne by the Client Pooled Fund, including but not limited to, costs of operating the Underlying Funds themselves.

### **Swaps.**

Investments in swaps involve the exchange by the Underlying Funds with another party of their respective commitments. In the case of interest rate swaps, the Underlying Funds may exchange with another party their respective commitments to pay or receive interest, such as an exchange of fixed rate payments for floating rate payments. Use of swaps subjects the Underlying Funds to risk of default by the counterparty. If there is a default by the counterparty to such a transaction, the Underlying Funds will have contractual remedies pursuant to the agreements related to the transaction. The swap market has a large number of banks and investment banking firms acting both as principals and agents utilizing standardized swap documentation. As a result, the swap market is relatively liquid in comparison with the markets for other similar instruments, which are traded in the interbank market. The Underlying Funds may also enter into currency swaps or other swaps which are similar to interest rate swaps but may be surrogates for other instruments such as currency forwards or options.

### **Workouts and Startups.**

Investments in distressed companies and new ventures are subject to greater risk of loss than investments in companies with more stable operations or financial condition.

### **Special Risk Factors for Non-U.S. Investing.**

Investing in securities of non-U.S. companies involves certain risk factors not usually associated with investing in the United States. The economies of non-U.S. countries differ from the U.S. economy with respect to growth of the economy, inflation rates, balance of payments and the degree of government participation through investment or regulation. Actions by non-U.S. governments such as nationalization, expropriation of foreign owned assets, regulation of foreign investment, confiscatory taxation and currency controls could have an adverse effect on the net assets of the Fund. In addition, the securities markets of many non-U.S. countries have substantially less volume and liquidity than comparable U.S. markets as well as generally higher transaction costs. Accurate information regarding many non-U.S. companies and markets is often difficult to obtain on a timely basis. In addition, non-U.S. companies often follow less stringent reporting and accounting standards.

### **Short Selling.**

Underlying Funds may utilize short selling. Short selling involves directly or indirectly selling (or having the equivalent exposure) securities or other instruments that may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace any such borrowed securities at a later date. Short selling allows an Underlying Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and any costs of borrowing. However, if the borrowed assets must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. Purchasing

assets to close out the short position can itself cause the price to rise further, thereby exacerbating the loss. In addition, there are rules prohibiting short sales of equity securities at prices below the last sale price, which may prevent an Underlying Fund from executing short sales at the most desirable time. Short strategies can also be implemented synthetically through various instruments, be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. They can also be implemented on a leveraged basis. Lastly, even though the Underlying Fund secures a “good borrow” of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Underlying Fund to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Underlying Fund.

### **Option Transactions.**

The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security in excess of the premium payment received.

Underlying Funds may purchase or sell customized options and other derivatives in the over-the-counter market that may have features different from traditional exchange-traded options (in which the Underlying Funds may also invest) though they also share the same risks. These options and derivative instruments may also subject such Underlying Funds to risk of default by the counterparty. Investments in these financial instruments may also be subject to additional risks such as interest rate and other risks.

An Underlying Fund’s ability to close out its position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange. Among the possible reasons for the absence of a liquid secondary market on an exchange are (i) insufficient trading interest in certain options, (ii) restrictions on transactions imposed by an exchange, (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities, (iv) interruption of the normal operations on an exchange, (v) inadequacy of the facilities of an exchange or similar facility to handle current trading volume or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

### **Speculative Purchase of Securities.**

Underlying Funds may make certain speculative purchases of securities of companies that the Underlying Fund manager believes to be undervalued or that may be the subject of acquisition attempts, exchange offers, cash tender offers or corporate reorganizations. There can be no assurance that securities which the Underlying Fund manager believes to be undervalued are in

fact undervalued, or that undervalued securities will increase in value. Further, in such cases, a substantial period of time may elapse between the Underlying Fund's purchase of the securities and the acquisition attempt or reorganization. During this period, a portion of the Underlying Fund's capital would be committed to the securities purchased, and the Underlying Fund may finance such purchase with borrowed funds on which it would have to pay interest.

### **Default and Counterparty Risk.**

Some of the markets in which Underlying Funds will effect transactions are "over the counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Underlying Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Underlying Fund to suffer a loss. In addition, in the case of a default, the Underlying Fund could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Underlying Fund has concentrated its transactions with a single or small group of counterparties. Optima does not have, and Underlying Funds are unlikely to have, an internal credit function that evaluates the creditworthiness of its counterparties. The ability of an Underlying Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Underlying Fund.

### **Small Companies.**

Underlying Funds may invest in small and/or less well established companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they lack the management experience, financial resources, product diversification, and competitive strength of larger corporations. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. In addition, due to thin trading in some of those stocks, an investment in those stocks may be considered less liquid than an investment in many large capitalization stocks. When making large sales, the Underlying Fund may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller company securities.

### **Derivatives.**

Underlying Funds may invest in complex derivative instruments that seek to modify or emulate the investment performance of particular securities, commodities, currencies, interest rates, indices or markets or specific risks thereof on a leveraged or unleveraged basis that can be equivalent to a long or short position in the underlying asset or risk. These instruments generally have counterparty risk and may not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the Underlying Fund than might otherwise be anticipated. These investments are all subject to additional risks that may result in a loss of all or part of an investment, such as interest rate and credit risk volatility, world and local market price

and demand, and general economic factors and activity. Derivatives may have very high leverage embedded in them, which may substantially magnify market movements and result in losses substantially greater than the amount of the investment and which in some cases could represent a significant portion of the Underlying Fund's assets. Some of the markets in which derivative transactions are effected are over-the-counter or interdealer markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. This exposes the Underlying Fund to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. Underlying Funds are not restricted from dealing with any particular counterparty or from concentrating all of its transactions with one counterparty.

### **Futures.**

Futures markets are highly volatile. To the extent an Underlying Fund engages in transactions in futures contracts and options on futures contracts, the profitability of such Underlying Fund will depend to some degree on the ability of the investment manager of such Underlying Fund to analyze correctly the futures markets, which are influenced by, among other things, changing supply and demand relationships, governmental policies, commercial and trade programs, world political and economic events and changes in interest rates. Moreover, investments in commodity futures and options contracts involve additional risks including, without limitation, leverage (margin is usually only 5-15% of the face value of the contract and exposure can be nearly unlimited) and credit risk vis-a-vis the contract counterparty. Finally, the CFTC and futures exchanges have established limits referred to as "speculative position limits" on the maximum net long or net short position that any person may hold or control in particular commodity contracts.

### **Investments in Governmental Debt.**

Underlying Funds may invest in debt of governments and quasi-governmental entities. The issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and an Underlying Fund may have limited legal recourse in the event of default. Governmental actions could have a significant effect on the value of any of the Underlying Funds' investments.

### **Yield, Prepayment, and Maturity Risks.**

Since the Underlying Funds may invest in mortgage-backed securities, the Underlying Funds are subject to prepayment risks. The rate at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying mortgage-backed securities will be affected by a variety of factors including, without limitation, the current rates of interest and economic, demographic, tax, social, legal and other factors. To the extent that prepayment rates are different than anticipated, the average yield of investments in mortgage-backed securities may be adversely affected. Generally, prepayments increase when interest rates fall and decrease when interest rates rise. The interest rate sensitivity of any particular pool of loans is dependent upon their payment status and particular class of mortgage-backed security and therefore the allocation of cash flow from the underlying mortgage loans. This may present either a problem of lower yield (particularly on reinvestment) or a longer holding period than expected and may adversely affect the expected rate of return on the mortgage-backed securities. Certain types of mortgage-backed securities contain highly

complex interest rate and cash flow provisions and may be highly volatile both with respect to yield and total return to maturity and with respect to market value.

### **Convertible Securities.**

As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent.

Convertible securities may or may not be rated within the four highest categories by Standard & Poor's Ratings Group ("**S&P**") and Moody's Investor Service ("**Moody's**") and, if not so rated, would not be investment grade. To the extent that convertible securities are rated lower than investment grade or not rated, there would be greater risk as to timely repayment of the principal of, and timely payment of interest or dividends on, those securities.

Securities that are rated BB or lower by S&P or Ba or lower by Moody's are often referred to in the financial press as "junk bonds" and may include securities of issuers in default. "Junk bonds" are considered by the rating agencies to be predominately speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions that may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of an Underlying Fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared, or the issuer enters into another type of corporate transaction that increases its outstanding securities.

### **Low Credit Quality Securities.**

To the extent an Underlying Fund invests in fixed-income securities, such Underlying Fund may be permitted to invest in particularly risky investments that also may offer the potential for correspondingly high returns. As a result, such Underlying Fund may lose all or substantially all of its investment in any particular instance. In addition, there is no minimum credit standard as a prerequisite to an investment in any security and the debt securities may be less than investment grade and may be considered to be "junk bonds" or be distressed or "special situations" with heightened risk of loss and/or liquidity. Such securities may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. Moreover, the Underlying Funds may invest in securities that are not protected by financial covenants or limitations on additional indebtedness.

### **Analytical Model Risks.**

Underlying Funds may employ analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the Underlying Fund may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the individuals and the assumptions embedded in the models. To the extent that

with respect to any investment, the judgment or assumptions are incorrect, the Underlying Fund can suffer losses.

**Global Macro.**

Global macro strategies include both directional trading and relative-value approaches to what are generally short-term allocations of capital. Managers utilizing a directional trading approach will take unhedged long or short positions in various markets. Such unhedged investments may expose an Underlying Fund to full market risk and are subject to substantial losses. The use of a relative-value approach is also subject to the risk of substantial losses because of imperfect correlation of a manager's portfolio of long and short positions.

**Long/Short Equity.**

Since a long/short equity strategy involves identifying securities that are generally undervalued (or, in the case of short positions, overvalued) by the marketplace, success of this strategy necessarily depends upon the market eventually recognizing such value in the price of the security, which may not necessarily occur, or may occur over extended time frames that limit profitability. Positions may undergo significant short-term declines and experience considerable price volatility during these periods. In addition, long and short positions may or may not be correlated to each other. If the long and short positions are not correlated, it is possible to have investment losses in both the long and short sides of the portfolio.

**A more detailed description of the risks associated with investing in Client Pooled Funds is set forth in the offering memorandums of each Client Pooled Fund.**

- C. For the majority of its clients, Optima does not make recommendations regarding particular types of securities. Optima makes recommendations regarding investments in commingled investment vehicles. Investments in commingled investment vehicles involve a risk of loss and investors should be prepared to bear such loss.

**Item 9 Disciplinary Information**

- A. Neither Optima, nor any of our employees, has had any civil or criminal actions brought against them.
- B. Neither Optima, nor any of our employees, has had any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.
- C. Neither Optima, nor any of our employees, has had any proceedings before a self-regulatory organization.

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

- A. No management persons of Optima are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

- B. Optima is registered as a commodity pool operator and a commodity trading adviser with the U.S. Commodity Futures Trading Commission and is a member of the National Futures Association.
- C. Optima is an affiliate of Optima Fund Management Limited Partnership and Optima Management Partners L.P., each a Delaware investment manager.

In addition, BNY Mellon, N.A. (“**BNY Mellon**”) owns a 17% interest in Optima Group Holdings LLC, the holding company that owns Optima. Pursuant to the terms of a referral agreement, BNY Mellon receives a portion of the fees earned by Optima on investments made by BNY Mellon investors in Client Pooled Funds. This fee arrangement is disclosed to all BNY Mellon investors and acknowledged by such investors upon making an investment in a Client Pooled Fund.

Optima Securities LLC (“**OS LLC**”) is a subsidiary of Optima and is a FINRA registered broker dealer. Registered employees of OS LLC market the Optima client funds to qualified investors.

Optima Group Holdings LLC, the parent company of Optima, serves as the general partner and/or managing member to the Client Pooled Funds. In consideration for sponsoring and organizing those Client Pooled Funds, Optima Group Holdings LLC receives a performance allocation from certain Client Pooled Funds as set forth in Item 5(A) above.

Optima may enter into an agreement with a broker-dealer in which Optima pays a set percentage of its management and/or performance-based fee to the referring broker-dealer. These arrangements, often referred to as Solicitation Agreements, are more specifically discussed in Item 14.

- D. Optima does not receive any fees or other consideration for recommending or selecting other investment advisers for clients. As discussed in Item 5(A), Optima may recommend Client PWM Accounts to invest in Client Pooled Funds and in such instances any fees earned by Optima from such Client Pooled Funds attributable to Client PWM Accounts is rebated in full back to the relevant Client PWM Account.

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

- A. Optima has adopted a Code of Ethics for all employees of the firm describing our high standards of business conduct, fiduciary duty to our clients and underlying investors and rules surrounding personal security trading of our employees. All Optima employees must accept in writing the terms of the Code of Ethics upon employment, annually or as amended.

A copy of the Optima’s Code of Ethics is available to any client or prospective client for review by contacting the Optima’s General Counsel, Christine Rivera, at (212) 484-3080.

- B. Optima allocates investments in Client PWM Accounts to commingled investment vehicles that are advised or managed by affiliates of Optima (“**Affiliated Funds**”). If the Client PWM Account allocates assets to an Affiliated Fund, either: 1) the Client Pooled Fund is not charged a management fee by Optima on that portion of the Client PWM Account’s assets invested in such vehicles, unless such investment was made at the request of the ultimate beneficial owner of the investor or 2) the proportionate share of the management and performance fees received by Optima and/or its affiliates from such an investment in an Affiliated Fund will be rebated back to the Client PWM Account in their entirety. Related persons of Optima may purchase interests in Client Pooled Funds provided such persons are qualified in terms of the suitability requirements of each vehicle to make such an investment. The investment in such vehicles by related persons are made on the same terms and conditions as are applied to clients, except for that related persons are not charged any performance fees, as applicable.
- C. Optima does not buy securities for its own account. Therefore, no potential conflict of interest exists at the firm level. Optima’s Code of Ethics includes guidelines on the personal security trading of Optima employees. The Code of Ethics requires Optima employees with personal brokerage accounts to submit to a Compliance Officer duplicate copies of their personal brokerage statements on at least a quarterly basis. Reporting and pre-approval of personal trades is not required for: (i) securities that are direct obligations of the U. S. Government (i.e., issued or guaranteed by the U.S. Government, such as municipal bonds, Treasury bills, notes and bonds, including U.S. Savings Bonds and derivatives thereof);(ii) high quality short-term instruments, including but not limited to bankers' acceptances, bank certificates of deposit, commercial paper and repurchase agreements; (iii) shares of registered open-end investment companies ("mutual funds") unless Optima is the investment adviser or sub-adviser thereto; (iv) commodity futures, currencies, currency forwards and derivatives thereof; (v) stock index options; (vi) exchange-traded funds (ETFs) and (vii) securities issued or guaranteed by the governments (or their agencies or instrumentalities) of Canada, the United Kingdom, France, Germany, Switzerland, Italy and Japan and derivatives thereof.

Unless prior clearance from a Compliance Officer has been received, the Code of Ethics also prohibits Optima employees from buying or trading in any commingled investment vehicle, fund of funds, limited partnership interests, securities offered in a limited offering or an initial public offering, any issuer exempt under Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940, an Optima Client Pooled Fund, securities in private placements or securities on Optima’s restricted list, (“**Restricted Securities**”). The Restricted Securities are securities in which the underlying managers in certain Client Pooled Funds in which Optima or its affiliates have full transparency hold a position and includes positions from two Client Managed Accounts that invest directly in publicly-traded equities.. The list of Restricted Securities is updated regularly by the Chief Compliance Officer. Personal trading of Restricted Securities is closely monitored, even if there is not an actual conflict and only a potential or perceived conflict.

- D. Optima does not buy securities for its own account. Therefore, no potential conflict of interest exists at the firm level. However, personal trading by employees is allowed. In some instances, employees purchase interests in Underlying Funds that are also investments

of a Client Pooled Fund. The potential conflicts of interest is addressed by the employee trading policy contained in the Code of Ethics and described in Item 11(C) above.

## **Item 12      Brokerage Practices**

- A. Optima's business that involves the purchase of interests in commingled investment vehicles, does not require the use of broker-dealers. The purchase and sale of securities by the commingled investment vehicles which is directed by independent third party investment advisers and the selection of broker-dealers to effect securities transactions is made solely by such independent third party investment advisers.

In the case of the two single manager commingled investment vehicles, the selection of the broker-dealer is made by the independent third party investment adviser to whom all day-to-day investment decisions has been delegated.

In the case of the two Client Managed Accounts that directly invest in publicly traded equities, Optima has the sole power and authority to determine the brokers to be used for each securities transaction for the Client Managed Accounts. In selecting brokers or dealers to execute transactions, the Optima need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, the Optima will negotiate "execution only" commission rates; thus, the Client Managed Accounts will not be deemed to be paying for other services provided by the broker to the Client Managed Accounts, the Optima and/or their respective affiliates which would otherwise be included in the commission rate. In negotiating commission rates, the Optima will take into account the financial stability and reputation of brokerage firms.

Optima does not use "soft dollars."

- B. In the case of the two Client Managed Accounts that directly invest in publicly traded equities, Optima may aggregate purchase and sale orders of securities or futures contracts held by the Client Managed Accounts with similar orders being made simultaneously for other accounts or entities if, in Optima's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the Client Managed Accounts based on an evaluation that the Client Managed Accounts will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities or futures contracts for the Client Managed Accounts will be affected simultaneously with the purchase or sale of like securities or futures contracts for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume purchased or sold. In such event, the average price of all securities or futures contracts purchased or sold in such transactions may be determined, at Optima's sole discretion, and the Client Managed Accounts may be charged or credited, as the case may be, with the average transaction price.

However, Optima will not cause or allow the Client Managed Accounts to enter into any contract or transaction with an affiliate or principal of the Client Managed Accounts or Optima unless such transaction complies with applicable law and is upon terms no less favorable to the Client Managed Accounts than it would obtain in a comparable arm's length transaction with a person or entity which is not an affiliate or principal of the Client Managed Accounts or Optima.

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

- A. Optima reviews multi-manager portfolios and allocations on a monthly basis (this review process can be customized for advisory clients). These reviews are conducted by D. Dixon Boardman (the Managing Member), Michael Spelman (the Chief Investment Officer) and the Sector Heads of the relevant underlying strategy of the particular portfolio. The Sector Heads at Optima are Yehuda Spindler (Sector Head) and Erik Welle (Sector Head). For details on the biography of each of these employees, please refer to Part 2B. Periodic reviews of underlying investments are undertaken at the weekly meeting of the Research Department.

The Client PWM Accounts are reviewed quarterly by D. Dixon Boardman (Managing Member and Chief Investment Officer). For details on the biography of Mr. Boardman, please refer to Part 2B.

The Investment Policy Committee (the “**IPC**”) meets at least semi-annually and makes decisions as to the general investment policies of the firm, including but not limited to, firm policies on leverage, position sizing, and maximum percentage of a particular underlying manager's assets. The IPC consists of D. Dixon Boardman (Managing Member), Thomas Gimbel (Executive Managing Director), Geoffrey M. Lewis (Chief Financial Officer) and Michael Spelman (Chief Investment Officer- Research). Mr. Boardman is chairman of the IPC.

- B. The Research Department at Optima will also review a client's portfolio following a material deposit or withdrawal. In such instance, the Research Department may have to make changes to the client's portfolio to insure the investments in the portfolio are in line with the client's stated investment objectives.
- C. Optima provides a variety of weekly, monthly, quarterly and annual written reports to clients and investors in Client Managed Accounts and Client Pooled Funds, as required by the terms of the governing documents of such entities, by regulation or by request of client. Optima also provides written reports on a monthly and annual basis or as otherwise requested to clients in Optima PWM Accounts. Quantitative reports present the total performance of such entities or individual client's portfolio on a monthly basis. Quarterly and annual quantitative reports detail each individual's performance with respect to their investment in the respective limited partnership and/or limited liability company. In addition to written reports, through the Registrant's website and proprietary in-house technology system called OPERAS (Optima Portfolio Evaluation Research and Accounting System), investors have access to a broad range of account and fund-related

documents including weekly estimates, monthly/quarterly reports, audited financials and other materials.

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

- A. Neither Optima nor any of its employees, receives any kind of economic benefit, sales award or other prized from any outside parties for providing investment advice to our clients.
- B. Optima may pay solicitation fees in certain circumstances for the referral of clients pursuant to the requirements of Rule 206-3 of the Investment Advisers Act and does pay placement agent fees to agents who sell securities of Client Pooled Funds. The additional compensation is up to one-half of the management fees received by Optima from the clients and investors, and is borne directly by Optima. The investors in Client Pooled Funds do not pay additional fees as a result of such arrangements, and the amount of such compensation is disclosed to the clients.

Client Pooled Funds advised by Optima may also retain registered broker-dealers to sell securities of such Funds. Optima pays the trailing commissions of such selling agents out of its own assets.

#### **Item 15      Custody**

We are deemed to have custody of an Optima sponsored Client Pooled Fund for whom we act as General Partner. Optima sends quarterly account statements to investors in such Client Pooled Fund as described in Item 13C above. We urge you to compare the statements received from your custodian with the reports we send you each quarter. These statements should be reviewed carefully. Our affiliate is deemed to have custody over the other Optima sponsored Client Pooled Funds and Client Managed Accounts by virtue of its role as General Partner or Managing Member of such Client Funds.

Investors in Client Pooled Funds are sent annual audited financial statements within 180 days of year end.

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

There are no limitations on Optima's authority to determine with respect to the discretionary accounts, without specific client consent, the securities to be bought or sold or the amount thereof, within the investment guidelines of the client. This authority is granted pursuant to the investment advisory agreement between Optima and each client or pursuant to the terms of the offering documents of a Client Pooled Fund.

Optima's decisions as to whether to allocate an investment opportunity to one Client Pooled Fund over another are governed by Optima's Fairness of Allocation Policy described in Item 6 above.

It should be specifically noted that Optima or its affiliates may participate in or sponsor other investment vehicles, and possibly have additional investment advisory clients, in the future.

The existence of multiple investment vehicles or clients may create conflicts as to time and resource commitments on the part of Optima's principals and other personnel. While such persons intend to devote such time to the business of the Client Pooled Funds as they deem necessary, they will have other ongoing investment and business responsibilities which could have the effect of reducing the time they will devote to the investment activities of the Client Pooled Funds.

Optima may at times determine that certain securities, or in the case of The Optima STAR Fund only, futures contracts, will be suitable for acquisition by the Client Managed Accounts and by other accounts managed by Optima, possibly including, but not limited to, its own accounts or accounts of affiliates. If that occurs, and Optima is unable to acquire the desired aggregate amount of such securities or futures contracts on terms and conditions which Optima and/or its affiliates, as applicable, deem advisable, Optima and/or its affiliates, as applicable, will endeavor to allocate in good faith the limited amount of such securities or futures contracts acquired among the various accounts for which Optima and/or its affiliates, as applicable, consider them to be suitable. Optima and/or its affiliates, as applicable, may make such allocations among the accounts in any manner which it and/or they, as applicable, consider to be fair under the circumstances, including, without limitation, allocations based on relative account sizes, the degree of risk involved in the securities or futures contracts acquired and the extent to which a position in such securities or futures contracts is consistent with the investment policies and strategies of the various accounts involved.

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

- A. The Research Team of Optima votes the proxies it receives from the managers of Underlying Funds in which the Client Pooled Funds, Client Managed Accounts and Client PWM Accounts are invested. These proxies relate to the activities of the Underlying Funds and include, but are not limited to, organizational changes, changes in liquidity, election of the directors of the Boards of Underlying Funds, and the creation of new share classes of Underlying Funds.

Pursuant to the subscription agreement of each respective Client Pooled Fund and advisory agreements of the Client Managed Accounts and Client PWM Accounts, underlying investors in Client Pooled Funds grant Optima a power of attorney to execute all documents on behalf of the investor in connection with its investment. Accordingly, the Research Team of Optima has adopted a policy pursuant to which it reviews proxy proposals. This review may include meetings or calls with management and reviews of all documents. The analysis for all Client Pooled Funds, Client Managed Accounts and Client PWM Accounts regarding proposals shall be the same. The Research Team's recommendation as to whether to vote for or against a proposal may differ among or between Client Pooled Funds, Client Managed Accounts, and Client PWM Accounts depending on such client's guidelines/mandate and how such proposal would impact such client. Absent any impact resulting from the implementation of the proposal or differences in the mandate of a client, the Research Team shall vote the same across all

Client Pooled Funds, Client Manage Accounts and Client PWM Accounts unless permission to do otherwise is obtained from the Compliance Officer. Where a Client Pooled Fund, Client Managed Account or Client PWM Account mandate provides that the client is consulted prior to making a decision regarding a proxy, the Research Team will send regular updates to the client with a final recommendation to either approve or refuse. These updates will generally be in written or electronic mail form. A detailed description of Optima's proxy voting policy as well as information about how Optima voted a client's securities is available upon request to Optima's General Counsel Christine Rivera at (212) 484-3080 and will be sent to investors in the client investor's second quarter letter. Circumstances may arise where different votes are directed for different clients regarding the same securities where the item being voted on may impact client guidelines in different ways. In such instances, Optima confirms with each client prior to voting why a vote will be directed "for" or "against" as the case may be.

- B. Optima does have authority to vote proxies as set forth in Item 17(A) above.

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

- A. Optima does not require any fees to be paid in advance, thus no financial statement for Optima is attached.
- B. Optima has discretionary authority over client accounts. Optima has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.
- C. Optima has never been the subject of a bankruptcy petition.