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# **Polaris Investment Partners, Inc.**

## **Part 2A of Form ADV**

### **The Brochure**

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This brochure provides information about the qualifications and business practices of Polaris Investment Partners, Inc ("Polaris"). If you have any questions about the contents of this brochure or would like an additional copy, please contact us at 843-414-4000 or 800-344-9101 or by email at [dallas@polarisinvest.com](mailto:dallas@polarisinvest.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 Polaris is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). This website also provides information about any persons affiliated with Polaris who are registered as investment adviser representatives of Polaris.

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## **Item 2 Material Changes**

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**The following material change to the Adviser, Polaris Investment Partners, Inc., has taken place since the annual update of March 31, 2016:**

- As of January 2017, Mr. Roy Callahan, Managing Director and Co-Chief Investment Officer is no longer with the Adviser. His primary responsibility had been in the area of manager selection research.

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## Item 4 - Advisory Business

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Polaris Investment Partners, Inc. (the “Adviser”) is an investment adviser with its principal place of business on Johns Island, Charleston, SC. The Adviser was founded on December 14, 1990 and is owned equally by John C. Pernell, Jr. and Martha L. Hamilton. The Adviser has been registered with the SEC since February 1, 1991. Several of its investment advisory services are or may be provided through its affiliated companies, Polaris Private Managers, Ltd., Polaris Offshore Partners, LLC, and Polaris (Cayman) Ltd., all three of which are 100% owned by John C. Pernell, Jr.

As of December 31, 2016, the Adviser had supervisory responsibility for approximately \$106,151,274 of client assets under management. All are managed on a discretionary basis except one small non-discretionary account valued at approximately \$20,673.

The Adviser provides two types of services to its clients, the selection of managers and separately managed accounts:

### 1. SELECTION OF MANAGERS

The Adviser provides the selection of investment advisers and commodity trading advisors (CTAs):

- To **private funds for qualified investors**. The Adviser currently manages the assets of 10 private funds, one of which is in liquidation and two which are distinct sub-funds of a group trust holding solely IRA assets.
- For **High Net-Worth Family accounts**. This service includes selection of investment advisers and CTAs customized to the client’s account(s), which can, with client agreement, include investing in Adviser-sponsored private funds as routes to recommended managers.

To **Collective Investment Funds**. Five Collective Investment Funds (“CIFs”), solely for pension and profit sharing plans including self-employed persons, are trusted by The Kingdom Trust Company (Kingdom). The Adviser is also under contract with Kingdom as its agent to provide fund participant recordkeeping, client servicing and reporting of these CIFs.

The Adviser provides non-discretionary assistance to each retirement plan participant to tailor an appropriate blend of CIFs based on specific investment objectives and strategies. Representatives of retirement plan participants have ultimate decision making power to select which CIFs to employ.

### 2. SEPARATELY MANAGED ACCOUNTS

The Adviser provides separately managed accounts (SMAs) on both a discretionary and non-discretionary basis to individuals and institutional accounts. In addition, it manages a portion of the assets of one private fund (solely available to qualified investors).

- SMAs--The Adviser offers a **growth strategy** which invests primarily in mutual funds and ETFs (Exchange-Traded Funds). Clients may impose restrictions on specific funds and/or sectors to be included in their portfolios. Under certain circumstances, the Adviser will manage **special purpose accounts** in a variety of securities or special situations as requested and agreed to by the individual client.
- A separately managed portfolio is advised for a **portion of a private fund** (Polaris Prime Small Cap Value, LP). The strategy is small to micro-cap special situations, including private placements.

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## Item 5 – Fees and Compensation

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### 1. SELECTION OF MANAGERS

#### a. Private Funds for Qualified Investors

##### **Asset-Based Compensation**

The Adviser charges its private funds an investment management fee based on the net asset value or as specified in the relevant special documents for each fund. The investment management fee is typically in the range of 1.0% to 2.0% annually. Several of the funds are also charged an additional administrative fee of 0.25% annually.

Further to specifications in the relevant documents for each fund:

- The investment management and administrative fees are charged each month in arrears based on the total market value of the investments (including net unrealized appreciation or depreciation of investments and cash, cash equivalents, accrued interest, and net of expenses) on the last day of each month.
- An investor in a private fund will only be charged its share of the investment management and administrative fee for the precise months in which its assets were invested.
- The investment management fees may be reduced or waived for investors that are employees, relatives of employees, sub-adviser employees, and strategic investors. From time to time, such fees may be waived for all fund investors at the discretion of the general partner or fund manager.

The Adviser deducts such fees from the private fund by instructing the fund's custodian.

##### **Performance Based Compensation.**

The Adviser may also be paid a performance-based fee from private funds based on a share of capital gains on, or capital appreciation of, the fund's assets, at an annual rate of 10 % to 20%. The Adviser deducts the performance-based fee from the private fund by instructing the fund's custodian.

##### **Other Fees and Expenses**

In addition to paying investment management fees and performance-based fees, private funds are also subject to other investment expenses such as custodial charges, brokerage fees, commissions, and administrator costs plus expenses including, but not limited to, sales expenses, legal expenses, internal and external accounting, audit and tax preparation expenses; and organizational expenses. Private fund fees and expenses are passed on to the fund investors.

In addition to the Adviser's investment management, performance, or administrative fees and other expenses, each private fund (and its investors) will also bear a separate layer of costs which may include management and incentive fees, brokerage and other transaction costs, and administrative expenses for any selected manager's fund or portfolio in which a private fund is invested. Some of these manager's funds may be invested in a master-feeder structure, which bears a pro rata share of the expenses associated with the related master fund.

To invest in private funds, the receipt and completion of special documents is required and all additional expenses are delineated in these.

## **b. High Net Worth Family Accounts**

### **Asset-Based Compensation**

The Adviser is paid an investment management fee based on the net asset value of the account(s). This fee is negotiable, typically in the range of 1% to 1.5% annually. Family Accounts may also be charged an additional administrative fee of 0.25% or a specified dollar amount annually.

### **Performance Based Compensation**

The Adviser may be paid a negotiated performance-based fee.

If a Family Account is invested in any Adviser sponsored private fund, the Adviser's management and performance based fees for each such fund is waived for that account.

## **c. Collective Investment Funds (CIFs)**

### **Asset Based Compensation**

The Adviser receives annual fees as the CIF's investment adviser and client administration based on the value of a participating client's net assets in the Trust, in accordance with the following schedule:

<u>Fee</u> (As an Annual % of Assets)	<u>Assets in the CIFs</u>
2.00%	On the first \$250,000
1.75%	From \$250,001 to \$500,000
1.50%	On all assets over \$500,001

These fees are charged each month in arrears based on the total net market value of the client's assets held in the CIFs on the last day of each month end (including net unrealized appreciation or depreciation of investments and cash, cash equivalents, and accrued interest; and minus expenses and other fees as described below).

These fees are negotiable, generally dependent upon total client assets invested in other investment programs of the Adviser. With client authorization, the trustee deducts these fees from the client's account to pay the Adviser.

The CIFs are also subject to other investment expenses such as

- custodial charges, and
- legal and auditing fees.

In addition to the Adviser Fees, each multi-manager CIF will also bear a separate layer of management fees and, if applicable, incentive fees, brokerage and other transaction costs and administrative expenses for any underlying manager's fund or portfolio in which a CIF may be invested.

## 2. SEPARATELY MANAGED ACCOUNTS

### Asset Based Compensation

**Growth Strategy**--Clients of the Adviser's growth strategy pay an annualized investment management fee based on the total market value of the client's assets (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest), typically in accordance with the following schedule:

<u>Investment Management Fee</u> (As an Annual % of Assets)	<u>Assets in the Account</u>
1.25%	On the first \$150,000
1.00%	All assets over \$150,000

Fees are charged each quarter in arrears as of the last day of each month.

- If a new *client* account is established during a month or a client makes an addition to the account during a month of \$5,000 or greater the fee is prorated for the number of days remaining in the month.
- If a client makes a partial withdrawal from the account during a month of \$5,000 or greater the fee payable is prorated for the number of days during the month such amount was in the account.
- If a client makes an addition or a partial withdrawal from the account during a month of less than \$5,000, the fee payable is not prorated.
- If a client terminates the investment management agreement during a month, the fee payable to the Adviser will be calculated based on the value of the assets on the termination date and prorated for the number of days during the month in which the investment management arrangement was in effect.

When the accounts are extremely small and the dollar amount of a quarterly fee is de minimis, the Adviser may choose to forgo such payment.

**Special Purpose Account**--Fees are negotiated for such an account and under certain circumstances may be waived e.g., for clients who are also long-time investors in other investment programs of the Adviser. Fees could be applied at 1% (annual rate) of the account(s) value.

To the extent that a client's account is invested in mutual funds and ETFs, the client will also bear a separate layer of management, trading, and administrative expenses of the funds—in addition to the investment management fees paid to the Adviser. Additionally:

- Investment in traditional mutual funds may also be charged 12b-1 fees, generally between a 0.25%-1% annual rate of the amount of assets held in the fund. (A 12b-1 fee is an expense to a fund, which is indirectly passed on to the client.) The Adviser does not participate in any of the 12b-1 fees.
- The Adviser attempts to avoid investing in no-load or low-load mutual funds ("load" is a commission paid for the purchase of a mutual fund); however, to the extent a sales-load is incurred, the Adviser does not receive any extra compensation in connection with the load.
- A fund may charge a short-term redemption penalty, which can range from approximately 0.5%-2.0%. The Adviser generally attempts to avoid funds that levee redemption penalties; however, from time to time it may determine such a fund to be otherwise beneficial to a portfolio. In such a case, it considers holding periods carefully prior to selecting the fund for client accounts; however, it will not defer a sale or exchange solely to avoid such redemption fees.

In addition to paying investment management fees, SMAs are also subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs, none of which are paid to the Adviser. Please refer to Item 12 of this Brochure for a discussion of the Adviser's brokerage practices.

**Portion of a Private Fund**--The one separately managed portion of a private fund is charged an investment management fee based on the net value of the fund's assets of 1.5% annually. (Please see description of "Selection of Managers of Private Funds for Qualified Investors" previously in this same Section for further explanation of fees regarding private funds generally.) The Adviser deducts investment management fees from the private fund by instructing the fund's custodian. This investment management fee has been waived for all long-time investors since, March 2002.

### **Performance Based Compensation**

The Adviser may be paid a performance-based fee from the separately-managed **portion of a private fund**, based on a share of capital gains on or capital appreciation of the assets, subject to a high water mark, at an annual rate of 20%. The Adviser deducts such performance-based fees by instructing the private fund's custodian. These fees have been waived for all long-time investors since March 2002 unless the specific investor has reached his high watermark.



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

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In addition to asset based management fees, as well as administrative and other fees described in Section 5, “Fees and Compensation,” the Adviser assesses performance-based fees on certain accounts.

Performance or incentive fees, when charged, are structured in accordance with Section 205(a)(1) of the Investment Advisers Act of 1940 (“the Act”), and with exemptions available under the Act, including the exemption in Rule 205-3. Performance fees are calculated on clients’ assets based on the fiscal period ending value (as described in the offering memorandum or the investment advisory agreement) which may include realized and unrealized capital gains and losses. Performance fees are assessed only on accounts of Qualified Clients, who are required to own or have a specified amount of assets and/or net worth as defined in Rule 205-3.

Performance-based fees are designed to give a portion of the returns earned by an investment to the investment adviser as a reward for positive performance. Performance based fee arrangements may create an incentive for the portfolio manager to recommend or utilize investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Adviser has procedures designed and implemented to help ensure that all clients are treated fairly and equally, and to help prevent this conflict from influencing the allocation of investment opportunities among clients.

Performance fees are negotiable and may be waived at the sole discretion of Adviser.

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## Item 7 – Types of Clients

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1. The Adviser provides **Selection of Manager** services for:
  - **Private Funds**. Investors in private funds are required to own or have a specified amount of assets and/or net worth. The completion of special documents are required prior to investing; minimum account sizes are specified.
  - **High Net Worth Family Accounts**. The Adviser requires that a family client invests a minimum of \$50 million, although this account size is negotiable depending on anticipated contributions.
  - **Collective Investment Funds**. Investors participating in Collective Investment Funds (“CIF”) are limited to pension and profit sharing plans, including plans of self-employed persons. The overall Trust requires an investor to invest a minimum of \$25,000 to invest in a CIF; however this account size is typically negotiated.
2. The Adviser provides **Separately Managed Account** services to the following clients:
  - Individuals, including high net worth individuals or families;
  - IRA accounts;
  - Pension and profit sharing plans or accounts; and
  - Trusts and estates.

The Adviser requires that a client invests a minimum of \$25,000 to open a Separately Managed Account (which may be waived for clients who are also investors in other investment programs of the Adviser at Adviser’s sole discretion).

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

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### 1. **Strategy** with respect to **Selection of Managers**:

Selection of Managers enables access to various investment strategies and specializations. Managers are selected in either complementary combinations known as a “funds of funds,” or to be the sole manager for a client or fund. The Adviser focuses its research on due diligence of the underlying investment managers or CTA (each, a “Selected Manager”) rather than individual securities. The analytical process includes both quantitative and qualitative elements. The Adviser endeavors to analyze a Selected Manager’s strategy, philosophy and decision making process, proprietary models, research and portfolio management systems, the quality of its investment professionals, its past performance record, its administration, and its organizational structure.

#### **Material Risks** associated with the Selection of Managers:

- Client accounts which contain Selected Managers are dependent on the investment success, continued service, and active trading efforts of unaffiliated third party asset managers which have been selected by the Adviser. If the investment results of any Selected Manager are poor, or services were to discontinue or lapse for any reason, client portfolios could be adversely affected.
- A majority of the Adviser’s Selected Managers specialize in the alternative investment space which can be speculative, entailing substantial risk and there is no guarantee that Selected Managers will achieve their investment goals. The Adviser will generally not be able to control or otherwise influence the trading activities of a Selected Manager apart from termination.
- The Adviser must rely on information believed to be from reliable sources—primarily the manager itself. Prior to selection, the Adviser performs what it considers an appropriate due diligence review. The Adviser then engages in the periodic monitoring of each Selected Manager. However, there can be no assurance that this due diligence or monitoring will be successful in identifying any existing or potential problems associated with any Selected Managers before they have a material adverse effect on a client account. It is critical that the Adviser perform careful reviews of capabilities on an on-going basis and review information provided by third parties (when available) for completeness, risk management, credit, operational, legal and other relevant standards related to the functions they perform.

### 2. **Strategy** with respect to **separately managed accounts**:

- a. The Adviser engages in a **growth strategy** wherein the Adviser attempts to select mutual funds and some ETFs which the Adviser expects to grow at an above-average rate compared to the overall market. From time-to-time, the Adviser may purchase Inverse or Leveraged ETFs as a form of hedging to offset potential declines in long positions, as well as for profit.
  - ETFs (Exchange Traded Funds) are selected using quantitative, charting, and technical analytical tools.
  - Mutual funds are generally selected as “core,” longer-term investments. The selection criteria for these funds have included: (1) having performed well during the extreme bear market periods, including 2008-2009, due to solid risk-adverse active management; (2) exhibiting a low correlation to the market; (3) employing long-short holdings or some combination of risk management hedging; and (4) having a strong and experienced management team. The Adviser seeks core funds it believes will allow clients to participate on the upside with acceptable protection on the downside, due to the investment style and active management.

- b. For **special purpose accounts**, the Adviser engages in buying, selling, or shorting a variety of securities tailored to the risk sensitivities of individual clients. An account's strategy may focus on equities with a broad range of possible styles, including growth, core, value, options and, in particular, special situations. The accounts may be held in cash equivalents awaiting a specified future investment or until a new special situation is uncovered by the Adviser. These special purpose accounts may not be diversified.

**Material Risks** with respect to growth strategy and special purpose accounts:

- *Equities.* The value of ETFs and Mutual Funds, which act as equity securities, fluctuate in response to the underlying securities, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.
  - *Inverse ETFs.* Exchange Traded Funds designed to track the inverse of a stated benchmark over the course of a single day. They are, however, not the same as holding short positions in the underlying benchmark. They are complex and carry risks, utilizing short selling, derivatives trading, and other leveraged investment techniques such as futures trading to achieve their objectives. Prices of derivative contracts do not necessarily move in tandem with the underlying securities.
  - *Leveraged ETFs.* Exchange Traded Funds that employ financial derivatives and debt designed to achieve a multiple of a stated benchmark's return over the course of a single day. The prices of derivative contracts, however, do not necessarily move in tandem with the underlying securities, and it is possible to suffer significant losses even if the performance of the benchmark showed a gain. The use of leverage typically increases the risk of gains or losses in line with the multiple. Unlike utilizing margin, or shorting securities, more than the original investment can be lost when using a leveraged ETF.
  - *Lack of Diversification.* An account with minimal diversification may be subject to more rapid changes in value than would be the case if it maintained a wide diversification among stocks or other securities.
  - *Short Sales.* Short selling involves the sale of securities not owned by the client, and necessarily involves certain additional risks. Such transactions expose the client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and in the case of equities, without effective limit. There is the risk that the securities borrowed by the client in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.
- c. Regarding the **separately managed portion of a private fund**: the adviser employs fundamental research. The investment strategies include, among others:
- Buying micro-cap stocks, occasionally private, illiquid instruments, distressed situations, or non-US securities as a capital growth strategy. The Adviser typically attempts to select securities of a company whose earnings the Adviser expects to grow at an above-average rate compared to the company's specific industry or the overall market.
  - Occasionally, a buy and hold investment strategy (in particular regarding private placements) wherein the Adviser buys securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.
  - Occasional shorting of stocks. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales for profit.

- From time to time, leverage may be employed, which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for marketable securities investments.

**Material Risks** with respect to above strategies include:

- *Equities*: The value of equity securities fluctuate in response to the underlying securities, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.
- *Illiquid Instruments*. Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.
- *Distressed Securities*. Investments in unrated or low grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies.
- *Non-US Securities*. Foreign securities, foreign currencies, and securities issued by US entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than US investments. In addition, foreign markets can perform differently from the US market.
- *Short Sales*. Short selling involves the sale of securities not owned by the client, and necessarily involves certain additional risks. Such transactions expose the client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and in the case of equities, without effective limit. There is the risk that the securities borrowed by the client in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. *Options*. Purchasing put and call options, as well as writing such options, entail greater than ordinary investment risks. Because option premiums paid or received by a client will be small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause a client's asset value to be subject to more frequent and wider fluctuations than would be the case if the investor did not invest in options. Upon the exercise of a put option written on securities, the client may suffer a loss equal to the difference between the price at which the client is required to purchase the underlying securities and their market value at the time of the option exercise, less the premium received from writing the option. Upon the exercise of a call option on securities written, the client may suffer a loss equal to the excess of the market value of the securities at the time of the option's exercise over the investor's acquisition cost of the securities, less the premium received from writing the option. No assurance can be given that the Adviser will be able to effect closing transactions at a time when it wishes to do so. If the Adviser cannot enter into a closing transaction, the client may be required to hold securities that it might

otherwise have sold, in which case it would continue to be at market risk on the securities and could have higher transaction costs, including brokerage commissions, upon the sale of securities.

- *Leverage.* Performance may be more volatile if a client's account employs leverage.

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## **Item 9 – Disciplinary Information**

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The Adviser has not been the subject of any legal or disciplinary events that would be material to your evaluation of our business or the integrity of our management.

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

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### **Commodities-Related Registration**

The Adviser and one of its affiliated entities are registered as commodity pool operators (CPOs) and commodity trading advisors (CTAs) with the NFA (National Futures Association). John C. Pernell, Jr., President and Chief Investment Officer is registered with the NFA as a Principal and Associated Person on behalf of the Adviser.

### **Private Funds**

The Adviser or its affiliates act as general partner or manager of private funds in which the Adviser also solicits client investments. This practice can create a conflict of interest because the Adviser or its affiliates may have an incentive to recommend securities to certain qualified clients based on its own financial interests, rather than solely the interests of the client.

Additionally, certain of these private funds have, and may in the future, enter into agreements or “side letters” with certain investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the private fund. For example, such terms and conditions may on occasion bestow more favorable liquidity terms and/or provide increased transparency about a private fund’s holdings; special redemption rights, relating to frequency or notice; and/or other terms and such other rights as may be negotiated between the private fund and such investors. The modifications are solely at the discretion of the Adviser or its affiliates in their role as general partner or manager of the specific private fund and may, among other things, be (1) based on the size of the investor’s investment in the private fund or other Adviser or affiliate investment programs; (2) based on an agreement by an investor to maintain such investment in the private fund for a significant period of time, or (3) based on other similar commitments by an investor in the private fund.

### **FINRA Broker-Dealer Applicant**

John C. Pernell, Jr. is the Managing Member, a 35% owner, and is expected to become a registered representative of Polaris Private Placements, LLC, a FINRA broker-dealer applicant. Polaris Private Placements, LLC (“PPP”) anticipates becoming a limited purpose broker/dealer that will primarily focus on conducting capital raising efforts for major private institutional & accredited clients.

If PPP is approved by FINRA and an Adviser client chooses to participate in transactions through Mr. Pernell via his broker-dealer capacity, Mr. Pernell may receive profits and other compensation from those transactions. The arrangements may present a conflict of interest because they could create an incentive for Mr. Pernell to make recommendations based upon the amount of compensation he could receive rather than the investment needs of the Adviser client. He would nonetheless be committed to acting in an Adviser client’s best interests at all times.

Mr. Pernell would explain the specific costs associated with any investments recommended via PPP, and there would be no obligation to purchase investments through Mr. Pernell in his broker/dealer capacity.



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

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**The Adviser has adopted a Code of Ethics** (the “Code”) that obligates the Adviser and all its employees to put the interests of the Adviser’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. Among other things, all employees are also required to comply with applicable federal or state securities laws, avoid even the appearance of insider trading, and pre-clear and report on many types of their personal securities transactions. The Adviser’s restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household. Clients or prospective clients may obtain a copy of the Code by contacting Dallas J Main, Compliance Administrator, by email at [dallas@polarisinvest.com](mailto:dallas@polarisinvest.com) or by telephone at 843-414-4000.

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

**Investing in Securities Recommended to Clients:** The Adviser, its affiliates, or its employees may invest in the same securities that the Adviser recommends to clients. Such practices present a conflict where, because of the information an Adviser has, either it, its affiliates, or its employees are in a position to trade in a manner that could adversely affect clients or result in an economic benefit for the Adviser (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients’ trades). In addition to affecting objectivity, these practices may also harm clients by adversely affecting the price at which clients’ trades are executed. The Adviser has adopted the following procedures in an effort to minimize such conflicts:

- The Adviser requires its employees to pre-clear private placement or private fund offerings and initial public offerings for their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients.
- The Adviser requires a one-day Black Out period for its employees. This means employees are NOT permitted to place a personal transaction in the same security on the same day in which the employee knew, or should have known, that a client trade order was both (1) initiated and (2) at least partially filled (i.e., if a trade order is initiated, but remains incomplete or open over night, the Adviser’s employees are still permitted to transact in that security one day following the initial trade.)

- The Adviser allows its affiliates' which have similar investment objectives to a client to trade on the same day as a client provided these trades are aggregated with client trades in the same security on the same day. Please see Item 12 for further explanation of trade aggregation.
- The Adviser, its affiliates, and its employees are required to disclose their securities transactions on a monthly basis and holdings on an annual basis, including related broker statements or other certification of such transactions or holdings. Trading in employee and affiliate accounts are reviewed for conflicts with client accounts by a designee of the Chief Compliance Officer.

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## **Item 12 – Brokerage Practices**

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The Adviser considers a number of factors in selecting a broker-dealer to execute transactions and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution, offering custody to client accounts, and offering to the Adviser on-line access to computerized data regarding a client's accounts.

In summary, these products and services include:

- The receipt of duplicate client confirmations, statements, and other account information;
- Direct advisory fee debiting capabilities;
- Access to an on-line and person-to-person order entry, including the simultaneous entry of trades on behalf of multiple client accounts;

In selecting a broker-dealer to execute transactions and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for brokerage or other services provided by a broker-dealer which are included in the commission rate.

### **Best Execution Reviews**

On a periodic basis, the Adviser's Chief Compliance Officer and other employees evaluate best execution services provided by the selected portfolio managers of Adviser investment programs or funds. In addition, the Adviser has sought to make a good-faith determination that any broker it selects to use directly in managing SMAs provides clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by the Adviser's receipt of products and services from the brokers. Historically, the Adviser has concluded that the current brokers used are as good as, or better than, the other firms that have been considered.

### **Aggregated Trades**

The Adviser typically aggregates (bunches) client trades in an effort to treat all clients fairly. Clients participating in a bunched order receive the same average price and share trading costs pro-rata. Such average pricing may not be the same as would be paid if the client account were traded individually. Affiliate portfolios may be included side-by-side in bunched client trades. If an order is partially filled, clients will have their orders fully filled on a pro rata basis, provided this does not incur unnecessary trading expenses for any one account due to a very small transaction size. The Adviser will seek to complete any unfilled client orders on the next trading day. Affiliate portfolios are given last priority in bunched trades whenever client orders are only partially filled.

### **Client Referrals**

The Adviser does not use trading commissions to compensate any custodian or broker-dealer for referring client accounts.

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## **Item 13 – Review of Accounts**

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Client accounts are monitored on an ongoing basis by the portfolio manager(s). On a monthly basis, the Chief Investment Officer (CIO) reviews fund accounts, as well as monthly reports from the managers and sub-advisers. He also reviews the separately managed accounts managed by portfolio managers other than himself. The CIO, is responsible for all reviews.

More frequent reviews may be triggered if a client changes its investment objectives, or if the market, political, or economic environment changes materially.

Separately-managed account clients receive account statements directly from their chosen custodian on at least a quarterly, though typically monthly, basis. The Adviser may supplement these custodial statements with periodic reports or special reports provided during client meetings or as requested.

With respect to clients that are pooled investment vehicles (private funds for qualified investors and collective investment funds), the underlying investors receive reports from the pooled investment vehicles pursuant to the terms of each fund or trust agreement

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

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The Adviser has a marketing agreement with Frontier Solutions, LLC, an unaffiliated broker-dealer, to pay a portion of its advisory fees for referral of investors to certain of the Adviser's private funds. Although such a contractual arrangement is in existence, no referrals have yet triggered any payments.

Any cash payments for client or investor solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

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## Item 15 – Custody

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The Adviser does not maintain physical custody of advisory client funds, securities or assets. The Adviser's general policy is to ensure that advisory client funds and securities are maintained with "qualified custodians" which provide at least quarterly account statements directly to clients.

However, the Adviser may be deemed to have custody (1) when clients authorize the Adviser to deduct its fees directly from their account and (2) when the Adviser or an affiliate is the general partner or managing member of a private fund.

Clients must authorize the Adviser in writing to deduct its fees from their account. Clients will receive at least quarterly statements from the account custodian showing the amount of the Adviser's fee which has been deducted. Clients should review their statements carefully. The custodian is not responsible for calculating the Adviser's fee.

With regard to private funds for qualified investors, the Adviser arranges for each fund to be audited annually and to provide the audited financial statements prepared in accordance with GAAP (or the international equivalent) to all fund participants within 90, 120, or 180 days of the end of its fiscal year as required by the relevant governing regulatory agencies. For closing or liquidating funds where the cost of an annual audit of financial statements may outweigh the benefits and where positions in liquidation may delay the timeliness of such an annual audit, with prior investor consent, Polaris may opt to have the fund's custodian send direct quarterly statements of fund holdings to all fund investors, provide only unaudited financial statements to investors and have the Adviser undergo a surprise custody audit.

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## **Item 16 – Investment Discretion**

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The Adviser provides investment advisory services on a discretionary basis to clients. Prior to assuming limited discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Clients can place reasonable restrictions on the Adviser's investment discretion. For example, clients may ask the Adviser not to buy securities issued by companies in certain industries, or not to sell certain securities where the client has a particularly low tax basis.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account.

With regard to private funds for qualified investors, the Adviser will exercise discretion in a manner consistent with the stated investment objectives as set forth in the offering documents for a fund and/or the investment advisory agreement.

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

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The Adviser does not accept authority to vote client securities. Clients will receive their proxies or other solicitations directly from their custodian/their transfer agent/the Adviser. For clients which are invested by Advisor-selected managers, the proxies are voted according to the standard procedures followed by these managers.



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## **Item 18 – Financial Information**

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The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to you, and has not been the subject of a bankruptcy proceeding.