



## **Cognios Capital, LLC Disclosure Brochure**

**March 6, 2017**

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This brochure provides information about the qualifications and business practices of Cognios Capital, LLC. If you have any questions about the contents of this brochure, please contact us at (913) 214-5000. 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 Cognios Capital, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

You can search this site by a unique identifying number, known as a CRD number. The CRD number for Cognios Capital is 148361.

Cognios Capital, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

## Material Changes

The current Disclosure Brochure for Cognios Capital, LLC contains the following material changes to the annual update Disclosure Brochure, which was dated on March 31, 2016.

June 24, 2016 – Item 4 was updated to reflect the firm's most recent calculation of assets under management.

June 24, 2016 – Item 14 was updated to reflect the firm entering into a third party marketing and referral agreement.

October 3, 2016 – Several Items were updated to reflect the launching of two new mutual funds by the firm, the Cognios Large Cap Value and Cognios Large Cap Growth mutual funds.

October 3, 2016 – Several Items were updated to reflect the firm terminating its Concentrated Growth and Small Cap Growth Strategies.

December 7, 2016 – Several Items were updated to reflect the firm launching a new Multi-Strat Alternative Income Strategy.

March 6, 2017 – Item 4 was updated to reflect the firm's most recent calculation of assets under management.

# Disclosure Brochure

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## Item 4 - Advisory Business

### General Description of Advisory Firm

Cognios Capital, LLC (“Cognios” or “the firm”) is an investment adviser registered with the U.S. Securities and Exchange Commission. We provide investment advisory services to clients on both a discretionary and non-discretionary basis.

Cognios was founded in 2008, and is principally owned by TCP Holdings, LLC. John Brandmeyer, Gary DiCenzo, Jonathan Angrist, Brian Machtley and Steven Braun act as Managers of Cognios.

### General Description of Advisory Services

Utilizing our proprietary research, Cognios uses a combination of quantitative and fundamental investment selection techniques. We provide investment management services to a private fund and mutual funds, and also provide investment advisory services through separately managed accounts to institutional and individual investors.

Cognios provides sub-advisory services to investment advisers but does not have regular contact with clients of such investment advisers.

Cognios has engaged an investment advisory firm to act as a sub-adviser as part of Cognios’ Multi-Strat Alternative Income strategy.

### *Separately Managed Accounts (“SMA”)*

We advise SMAs for institutional and individual investors. These accounts are offered on a discretionary and non-discretionary basis. Within reason, clients may impose restrictions on investing in certain securities or types of securities. At our sole discretion, we will manage legacy portfolios within a SMA.

### *Mutual Funds*

We serve as the adviser to the Cognios Market Neutral Large Cap Fund, the Cognios Large Cap Value Fund and the Cognios Large Cap Growth Fund mutual funds (“Mutual Funds”). The Mutual Funds are offered by prospectus only. The prospectus includes investment objectives, risks, fees, expenses, and other information that prospective investors should read and consider carefully before investing.

### *Private Fund*

We serve as the investment manager and General Partner to the Cognios Beta Neutral Large Cap Fund, LP (“Private Funds”). Private Fund investments are managed in accordance with investment objectives set forth in the Private Fund’s confidential offering memorandum and such investments are not tailored to the individual needs of any particular limited partner.

### *Asset Allocation Model Portfolios (“Model Portfolios”)*

We act as a sub-adviser for independent financial advisers. In this capacity, we manage asset allocations for Model Portfolios according to a predetermined agreement with the primary investment adviser.

### *Other*

Cognios acts as a sub-adviser to managed investment accounts of a first-loss capital program.

Cognios has entered into a data distribution agreement whereby the firm will provide non-discretionary investment recommendations in the form of an investment model to a third-party investment adviser, who may replicate some or all of the firm’s recommendations contained in the investment model.

As of December 31, 2016, Cognios managed approximately \$561.2 million of client assets (\$429.2 million on a discretionary basis and \$132.0 million on a non-discretionary basis).

## Item 5 - Fees & Compensation

Cognios receives compensation for providing advisory services depending on the manner in which they are provided.

### *Separately Managed Accounts (SMAs)*

#### Large Cap Value Strategies

First \$25mm	70bps
Next \$25mm	60bps
Balance	50bps

Core Balanced Asset Allocation Strategy	50bps
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Multi-Strat Alternative Income Strategy	150bps
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#### Large Cap Growth & All Cap Growth Strategies

First \$25mm	85bps
Next \$25mm	75bps
Balance	65bps

#### Core Equity Strategy

First \$25mm	60bps
Next \$25mm	55bps
Balance	50bps

Fees for SMAs are negotiable for all discretionary account strategies. Cognios, in its sole discretion, may negotiate a lesser management fee or minimum account size due to a variety of factors such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing relationship with client, account retention, *pro bono* activities, etc. The advisory fees charged and the manner and frequency they will be calculated will be disclosed in the Investment Management Agreement signed by the Client and Cognios. Clients authorize Cognios to debit advisory fees directly from their accounts.

Separately managed accounts may incur certain charges imposed by custodians and other third parties which may include charges imposed directly by a mutual fund or exchange traded fund in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction costs. Such charges, fees and commissions are exclusive of and in addition to the Cognios advisory fee.

See "Brokerage Practices" below for additional information.

### *Non-Discretionary Accounts*

We generally charge a fee of 0.1% to monitor non-discretionary SMAs and provide recommendations. In certain circumstances, this fee is negotiable. Cognios does not assess this fee against cash or cash equivalents in non-discretionary accounts.

### *Mutual Funds*

Cognios may recommend or allocate the Mutual Funds to certain advisory clients or within certain investment models. In these instances, we waive the client's account management fee for the portion of assets invested in the Mutual Funds. The client pays the fees, expenses and charges associated with the Mutual Funds, custodian or other third parties. Please refer to the prospectus and statement of additional information ("SAI") for information

about the fees and expenses associated with the Mutual Funds. These documents are available at [www.cogniosfunds.com](http://www.cogniosfunds.com).

#### *Private Fund*

In return for our service as Investment Manager to the Private Fund, we receive a management fee based on each limited partner's share of the Private Fund's net asset value. The management fee is payable quarterly in advance, calculated as of the last day of the prior calendar quarter. Additionally, the Private Funds General Partner, which is which is 100% owned by Cognios, may earn an annual performance allocation based on the Private Fund attaining certain performance metrics. All Private Fund fees and expenses are established by the Private Fund's governing documents (the "Fund Agreements") and are described in the Private Fund's offering memorandum ("Memorandum").

Limited partners in the Private Fund, like investors in other private investment funds, may be limited in their ability to terminate their participation in the pooled investment vehicle. Those limits are set out in the Memorandum, which should be read carefully. Lower fees for comparable services may be available from other sources.

#### *Asset Allocation Model Portfolios ("Model Portfolios")*

Cognios acts as a sub-adviser to Model Portfolios within managed wrap fee accounts. Cognios' fee for the Tactical Global Asset Allocation Model Portfolios, Core Blend Model Portfolios and Strategic Global Asset Allocation Model Portfolios range from 35 to 50 bps of assets under management.

Cognios may allocate a portion of the assets in the Core Blend Model Portfolios and the Tactical Global Asset Allocation Portfolio to the Institutional Class of Cognios' Market Neutral Large Cap Mutual Fund (COGIX). In these instances, the client's account will not be charged Cognios' fee for the portion of assets invested in COGIX. The client pays the fees, expenses and charges associated with COGIX, custodian or other third parties. Please refer to the prospectus and statement of additional information ("SAI") for information about the fees and expenses associated with COGIX. These documents are available at [www.cogniosfunds.com](http://www.cogniosfunds.com). Clients should be aware that the primary investment advisor may charge their account management fee on the entire portion of the account.

#### *Data Distribution Agreement*

Cognios provides non-discretionary investment management recommendations in the form of an investment model to a third-party investment adviser, who may replicate some or all of the recommendations contained in the investment model.

Cognios' fee for these recommendations will vary depending on how the investment recommendations are implemented and how assets are introduced to the third-party adviser, but will generally range from 1.25% to 2%.

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

The General Partner of the Private Funds is 100% owned by Cognios. As such, there is a conflict of interest in allocating potentially more favorable investment opportunities to the Private Funds that pays a performance allocation to the General Partner. Performance based compensation also creates an incentive to allocate potentially riskier, but potentially better performing, investments to the Private Funds in an effort to increase the performance allocation.

Cognios may receive performance fees for investment accounts from first-loss capital programs or from Qualified Clients (as defined by Rule 205-3 of the Investment Adviser's Act of 1940) for managing SMAs. We manage multiple strategies with similar investment objectives and eligible securities. In cases where multiple funds/accounts may be invested in or investing in the same security, a conflict of interest exists when one fund or account is paying an incentive based fee. In such cases, and in the course of normal trading activity, there is a conflict when allocating trades to such accounts as previously described. Our portfolio managers and compliance staff mitigate these conflicts of interest by allocating investment opportunities in a fair and equitable manner consistent with the investment objectives and strategies of each fund, client and account, and in accordance with our allocation policies and procedures so that no fund or client will be disadvantaged in relation to any other fund or client.

Cognios may recommend or allocate the Mutual Funds for which we act as investment adviser. Cognios receives a management fee from the Mutual Funds which may be higher than the account management fee for a SMA or model running the same strategy, thereby creating a conflict of interest as we would have an incentive to allocate a greater portion of the Mutual Funds in a client's account or model. Each Mutual Fund recommendation or allocation will be evaluated and made only if Cognios deems it to be in the client's best interest.

A conflict exists related to the data distribution agreement discussed in Item 4, as Cognios would earn a higher fee from the third party adviser utilizing Cognios' investment recommendations if a client is referred to the third party adviser by Cognios, than they would earn if a client were to engage the third party adviser directly to use Cognios' investment recommendations. However, Cognios will always act in the best interest of the client when recommending any particular third party investment adviser or service.

Cognios may allocate its Institutional Class Cognios Market Neutral Large Cap Mutual Fund (COGIX) to the Tactical Global Asset Allocation Portfolio and Core Blend Model Portfolios for which we act as a sub-advisor. Cognios receives a management fee from COGIX which may be higher than the fee we receive when acting as a sub-advisor to these Portfolios, thereby creating a conflict of interest as we would have an incentive to allocate a greater portion of COGIX in the Portfolios. However, the amount of the allocation of COGIX in the Portfolios will be made consistent with what we believe to be in the best interest of investors in the Portfolios.

## Item 7 - Types of Clients

Cognios services the following types of clients: Individuals, high-net worth individuals, institutions, trusts, private funds, charitable organizations, investment companies and clients of independent financial advisors.

### *Minimum Account Size*

The minimum account size for SMA clients in our strategies is \$5 million. SMA clients investing in the market neutral large cap strategy must invest at least \$10 million, subject to our prime brokerage arrangements. Cognios, in its sole discretion, may negotiate a lower minimum account size.

The Private Fund managed by Cognios has have a minimum purchase requirement which is described in the Memorandum, although the General Partner has discretion to modify these minimum purchase requirements.

## Item 8 - Methods of Analysis, Investment Strategies & Risk of Loss

### *Methods of Analysis*

The discussion in this section applies to all Cognios investment portfolios, including SMAs, the Mutual Funds, the Private Fund, and the Model Portfolios.

SMA clients should carefully review the account's investment management agreement for additional information about the account's investment strategies and risks.

- Potential investors in the Mutual Funds should carefully review the prospectus and other offering documents for additional information on the respective fund's investment strategies and risks.
- Potential investors in the Private Fund should carefully review the Memorandum and other offering documents for additional information on the fund's investment strategies and risks.
- Potential investors in the Model Portfolios should carefully review the investment management agreement and all other documents provided by their independent financial adviser for additional information about the account's fees, investment strategies and risks.

- Potential investors utilizing the services of a third-party investment advisor under the data distribution agreement should carefully review the investment management agreement and all other documents provided by the third-party investment adviser for additional information about the account's fees, investment strategies and risks.

Cognios uses a team approach to managing client assets. Investment decisions and recommendations are made by our investment committee and portfolio managers. Certain associated persons may discuss Cognios investment philosophy, strategies, and performance, and review client reports, as well as discuss other client-related services offered by Cognios. However, they do not formulate or provide investment advice for potential or current clients.

**ROTA/ROME® Investment Analysis:** Our quantitative large cap value strategies utilize Cognios' proprietary ROTA/ROME® investment approach. ROTA/ROME® is a value-based quantitative stock selection strategy that favors companies with high returns on tangible assets ("ROTA") and high earnings yields on current stock prices ("ROME", or return on market equity). Cognios believes that ROTA is a key driver of a company's intrinsic value and companies with high ROTA are generally worth more in intrinsic value than companies with low ROTA. Cognios also believes that ROME is an important metric for assessing how cheap or how expensive a stock is at a point in time. The basic tenet is that when you buy a stock, ROTA represents the value you get and ROME represents the price you are paying. The overall value-based objective is to buy a lot of value at low prices.

**Market Neutral Quantitative Large Cap Value Strategy.** "Market neutral" generally means that the long positions in a portfolio are equal in dollar value to the short positions in a portfolio. One of the main objectives of a market neutral portfolio typically is to remove the effect of the ups and downs of the broad stock market from the investment performance of the stocks in a portfolio. However, in order to most effectively remove the overall market's movements (i.e., the broad market's *Beta*) from a portfolio of stocks, Cognios believes that the size of the short book should be adjusted based on the relative *Betas* of the long and short book. This strategy is market neutral on a *Beta*-adjusted basis.

Beta is a statistical measure of the sensitivity of a stock's price to the change in price level of an overall stock market index. For our large cap value strategies, the *Betas* are relative to the S&P 500 Index. A Beta equal to 1.0 means that a stock generally moves up and down in line with the stock market. A Beta of less than 1.0 means that a stock's price generally moves up and down less than the stock market. A Beta greater than 1.0 means that a stock generally moves up and down more than the stock market.

In a Beta-adjusted market neutral portfolio the size of the short book can be larger or smaller than the size of the long book. If the Beta of the long book is higher than the Beta of the short book, the short book needs to be larger than the size of the long book in order to remove the market's broad movements (i.e., to remove the market's Beta). If the Beta of the long book is lower than the Beta of the short book, the short book needs to be smaller than the size of the long book in order to remove the market's Beta from the portfolio. Even though the portfolio will be net short on an absolute dollar basis in the first example (i.e., more shorts than longs) and net long on an absolute dollar basis in the second example (i.e., more longs than shorts), both would be market neutral on a Beta-adjusted basis.

When a portfolio is market neutral on a *Beta*-adjusted basis, the net performance of the portfolio should be much closer to "pure *Alpha*." *Alpha* is the statistical measure of the risk-adjusted performance against the market index that an active portfolio manager is delivering to its clients.

Over time, the returns of these strategies should have a low correlation to the S&P 500 and have the opportunity to make or lose money regardless of the positive or negative performance of the S&P 500 Index (the benchmark we use to gauge movements of the overall stock market).

**Cognios Tax Efficient Quantitative Large Cap Value Strategy.** This investment strategy is based on Cognios' proprietary ROTA/ROME® investment approach. Funds are invested in a portfolio of US large cap equities that are constituents of the S&P 500. This version of our strategy is comprised of five concurrent tranches with each being reconstituted and rebalanced on successive quarters such that each quarterly tranche is held for approximately fifteen months in an effort to reduce the amount of short-term capital gains.



Cognios Quantitative Large Cap Value Strategy. This investment strategy is based on Cognios' proprietary *ROTA/ROME*® investment approach. Funds are invested in a portfolio of US large cap equities that are constituents of the S&P 500. This version of our strategy is reconstituted and rebalanced at least every month.

Core Equity Strategy. This investment strategy is a concentrated portfolio of large cap stocks of high quality US companies selected by the portfolio managers based on proprietary fundamental research. Portfolios in this strategy generally seek to be tax efficient through low position turnover over time (long-term equity investment strategy).

Core Balanced Asset Allocation Strategy. This strategy utilizes a weighted blend of Cognios' Core Equity strategy, Cognios' Institutional Class Market Neutral Large Cap Mutual Fund (COGIX), and various bond ETF's. The allocations to each asset class are strategic in nature and are likely to change from time-to-time in an attempt to capture investment opportunity trends in the current market environment.

Multi-Strat Alternative Income Strategy. This strategy utilizes a blend of Cognios' Market Neutral Large Cap Value Strategy combined with various alternative strategies to deliver a low volatility total return with current income.

### Quantitative Growth Strategies

The quantitative growth strategies are available as Large Cap and All Cap equity portfolios. These strategies combine fundamental and technical analysis information. The main focus of these strategies is on companies that exhibit accelerating growth in earnings and revenue. Investments in these strategies include mostly U.S. common stock traded on major North American exchanges. The strategy can also hold some preferred stock, ADRs, MLPs (All Cap strategy only) and publicly traded REITS.

Long/Short Growth Strategy. This strategy invests in a long-short growth portfolio across the broad U.S. market. Securities for the portfolio are selected based on growth characteristics of the underlying companies.

Global ETF Strategy. This strategy provides passive exposure to global equity markets through the use of index ETFs. The ETFs selected are based on our portfolio managers' fundamental analysis.

Tactical Global Asset Allocation Model Portfolios. We manage tactical Model Portfolios as a sub-adviser for other investment advisers. Our Tactical Global Asset Allocation Models consist of various distinct portfolios, based on risk tolerance, that each aim to generate long-term risk adjusted performance. These models primarily utilize actively managed mutual funds, including potentially Cognios' Institutional Class Market Neutral Large Cap Mutual Fund (COGIX), that seek to out-perform their respective indexes. The allocations to each asset class are tactical in nature and are likely to change from time-to-time in an attempt to capture investment opportunity trends in the current market environment.

Core Blend Asset Allocation Model Portfolios. We manage strategic Model Portfolios as a sub-adviser for other investment advisers. Our Core Blend Asset Allocation Models consist of various distinct portfolios, based on risk tolerance, that each aim to generate long-term risk adjusted performance. These models utilize a weighted blend of Cognios' Core Equity strategy, Cognios' Institutional Class Market Neutral Large Cap Mutual Fund (COGIX), and various bond ETF's. The allocations to each asset class are strategic in nature and are likely to change from time-to-time in an attempt to capture investment opportunity trends in the current market environment.

Strategic Global Asset Allocation Model Portfolios. We manage strategic Model Portfolios as a sub-adviser for other investment advisers. Our Strategic Global Asset Allocation Models consist of various distinct portfolios, based on risk tolerance, that each aim to generate long-term risk adjusted performance. These models primarily utilize low cost Exchange Traded Index Funds ("ETF's") that passively track the indexes for each of their respective asset classes. The allocations to each asset class are generally strategic (long-term) in nature and are likely to remain fairly stable over time. These models may also include Exchange Traded Index Notes ("ETN's").

### *Risk of Loss*

Clients and/or investors in any of our products should be aware that investing in securities involves risk of loss and should be prepared to bear that loss. Risks are inherent in any investment, the amount of which may vary

significantly, and investment performance can never be predicted or guaranteed. There is no guarantee that the investment objectives of any strategy will be met. No investment strategy can assure a profit or avoid a loss.

Investors considering an investment in the Private Fund should consider that investing in a private fund involves certain risks beyond those which are associated with the underlying securities the Private Fund may own.

Risks associated with any investment in our strategies, products and/or Model Portfolios may include some or all of the following:

*Market Risk (and overall market movements):* Even a long-term investment approach cannot guarantee a profit. Economic, political, overall market and issuer-specific events will cause the value of securities, and the portfolio that owns them, to rise or fall. Because the value of an investment in a portfolio will fluctuate, there is a risk that investors will lose money.

*No Assurance of Investment Return:* Our task of identifying and evaluating investment opportunities, managing such investments and realizing a positive return for investors is difficult. There is no assurance that we will be able to invest capital on attractive terms or to generate positive returns for investors.

*Concentration of Investments:* Because some of our strategies have a high percentage of total assets invested in a small number of portfolio holdings, any single loss may have a significant adverse impact on the portfolio value.

*Illiquidity:* Investments in the Private Funds are not liquid. The Private Funds restrict an investor's ability to transfer and withdraw interests in the Private Funds ("Interests"). Neither the offer nor sale of the Interests have been registered under the Securities Act of 1933 or any similar state law. No market exists for Interests, and none is expected to develop.

*Valuations:* The value of the securities held in an individual account or by a Private Fund (as well as the value of a Private Fund itself), determines the level of fees paid by investors. In certain cases, if the underlying investments are not publicly traded, they may be difficult to value. In such cases, investors in a Private Fund face the risk that a Private Fund's value may not be accurately established.

*Our Investment Research Processes:* Any investment research that we may perform with respect to investment opportunities may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating that opportunity, including, among other things, the existence of fraud or other illegal or improper behavior.

*Leverage Risk:* Certain strategies use leverage in the investment programs, including the use of borrowed funds and the use of short sales. Leverage is a speculative technique that may adversely affect investors. If the return on securities acquired with borrowed funds or other leverage proceeds does not exceed the cost of the leverage, the use of leverage could cause the investor to lose money. There is no assurance that a leveraging strategy will be successful.

*Short Sale Risk:* When a short sale strategy is used, the firm will sell at the current market price a stock it does not own but has borrowed. Short sales involve the risk that the investment will incur a loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Strategies which utilize short sales may not always be able to close out a short position on favorable terms, and brokers could force us to close out short positions (i.e. 'buy-in') before we are otherwise ready to do so. Short selling is also a form of leverage.

*Tax Considerations:* An investment in the Private Funds may involve complex income tax considerations that will differ for each investor. Under certain circumstances, investors in a Private Fund could be required to recognize taxable income in a taxable year for income tax purposes, even if a Private Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income. Since often funds do not make any distributions to their members, a member's tax liability attributable to his or her investment in a Private Fund likely will exceed the cash distributed. The Private Funds may invest in entities which would cause them to have to report for income tax purposes, taxable income prior to the time the Private Funds receive any distributions from such investments. Additionally, SMA's managed in non-qualified accounts may incur undesirable tax consequences if portfolio turnover is high.

*No 1940 Act Protection:* The Private Fund seeks to maintain its structure so as to not be required to register as an investment company under the Investment Company Act of 1940 ("1940 Act") and, therefore, the Private Fund investors will not have the benefit of various protections afforded by the 1940 Act.

*Two Levels of Fees:* Although in many cases investor access to the assets held by the Private Funds may be limited or unavailable, an investor who meets the conditions imposed by such assets may be able to invest directly in such assets. By investing in one of the Private Funds' assets indirectly through the Private Funds, the investor bears a proportionate share of the fees and expenses of the Private Fund (including organizational and offering expenses, operating costs, the management fee, the performance allocation, and other fees as applicable). Thus, an investor in a Private Fund is subject to higher operating expenses than if he or she invested in a Private Fund's assets directly.

*Value Investment Risk:* Value stocks may perform differently from the market as a whole and following a value-oriented investment strategy may cause a portfolio to at times underperform equity funds that use other investment strategies.

*ETF Trading Risk:* ETFs are investment companies that are bought and sold on a national securities exchange. Unlike mutual funds, ETFs do not necessarily trade at the net asset values of their underlying securities, which means an ETF could potentially trade above or below the value of the underlying portfolios. Additionally, because ETFs trade like stocks on exchanges, they are subject to trading and commission costs unlike some mutual funds. Also, both mutual funds and ETFs have management fees that are part of their costs, and the portfolios will indirectly bear a proportionate share of these costs.

*Hedging Strategy Risk:* Certain strategies may invest in short sales to hedge against fluctuations in the relative value of their portfolio positions as a result of changes in the equity markets or sectors thereof. There is no assurance that the hedging transactions will be effective in reducing exposure to any risks.

*MLP Risk:* The All Cap Growth Strategy may invest in equity securities of MLPs. As a result, it is subject to the risks associated with an investment in MLPs, including price risk, cash flow risk and tax risk. Price risk is the risk that an MLP's market price will decline. Cash flow risk is the risk that MLPs will not make distributions to holders (including us) at anticipated levels or that such distributions will not have the expected tax character. MLPs are also subject to tax risk, which is the risk that MLPs might lose their partnership status for tax purposes.

*Small Company Risk:* Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, smaller capitalization companies are also more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

*Growth Investment Risk:* Securities that have high valuation ratios and high expected profitability may perform differently from the market as a whole and an investment strategy purchasing these securities may cause the portfolio to at times underperform equity funds that use other investment strategies.

*Conflicting Interests Risk:* The incentive fee, charged to the first-loss capital program, Private Fund and/or Qualified Clients, payable to us or our affiliates may create an incentive for us to make investments on behalf of the applicable accounts that are riskier or more speculative than would be the case in the absence of such a compensation arrangement. Because a portion of the incentive fee payable to us or our affiliates is calculated as a percentage of net investment income, we may use leverage to increase the return on the applicable investments. As noted previously, we may also utilize Cognios' Institutional Class Market Neutral Large Cap Mutual Fund (COGIX) in some of our strategies, which may earn us a higher fee than if an account were charged the standard management fee.

## Item 9 - Disciplinary Information

The Firm has no disciplinary history to report.

## Item 10 - Other Financial Industry Activities & Affiliations

Management persons and individuals associated with Cognios Capital, LLC also devote time and resources to Fambran Enterprises, LLC (d/b/a Brandmeyer Enterprises). This affiliated company is an unregistered investment adviser and commodity pool operator relying on the family office exemption. Cognios and Brandmeyer Enterprises share common office space, back-office support and accounting services.

As noted previously, Cognios owns 100% of the General Partner of the Cognios Beta Neutral Large Cap Fund, LP ("Private Fund") and serves as the investment manager of the Private Fund.

## Item 11 - Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

### *Code of Ethics*

Our Code of Ethics (the "Code") sets out general ethical standards applicable to our associated persons. Our associated persons are expected to maintain the highest ethical standards, embody a business culture that supports actions based on what is right rather than expediency, deal fairly with customers and one another, protect confidential information and seek guidance about ethical questions. More specifically with respect to advisory activities, the Code requires that whenever we act in a fiduciary capacity, we will endeavor to consistently put the client's interest ahead of ours. We will not engage in fraudulent, deceptive or manipulative conduct with respect to clients, and will act with appropriate care, skill and diligence.

Advisory personnel are required to know when we are acting as a fiduciary with respect to the work they are doing. If we are, associated persons are expected to comply with all fiduciary standards applicable to us in performing their duties. In addition, associated persons must put the client's interest ahead of their own personal interest. An associated person's fiduciary duty is a personal obligation.

In addition to these ethical principles, the Code requires that our staff acknowledge receipt of the Code, report violations of the Code and comply with applicable federal and state securities laws. The Code also incorporates a personal securities trading policy, which is intended to deter and prevent insider trading among other things. The policy contains detailed requirements for respecting information barriers relating to material nonpublic information, as well as restricting, reporting and monitoring associated persons' personal securities trading. We will provide a copy of the Code, free of charge, to any client or prospective client upon request.

### *Participation or Interest in Client Transactions*

It is possible, although not a general practice of Cognios, that we may recommend that clients (or the funds which we manage) buy or sell securities or investment products in which a related person of Cognios or an associated person of Cognios has some financial interest. Specifically, as previously disclosed above, we may recommend that some of our clients invest in the Private Fund or the Mutual Funds, or we may allocate the Mutual Funds in certain Model Portfolios. Our principals may also invest in the funds that we manage, and we require that all such transactions be carried out in a manner that does not conflict with the interests of any client. We require that all of our supervised persons act in accordance with all applicable federal and state regulations governing their activities in their capacities as such. Furthermore, we have adopted the Code expressing the firm's commitment to ethical conduct and prohibiting certain types of transactions. See "Code of Ethics" above. Individuals associated with us may buy or sell securities for their personal accounts which are identical or different than those recommended to clients. It is our policy that no associated person may prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decision of advisory clients.

Our Chief Compliance Officer pre-approves certain associated person transactions according to the Code. The Chief Compliance Officer periodically reviews associated person transactions to ensure that personal transactions do not conflict with the interests of the Private Funds or any other client.

## Item 12 - Brokerage Practices

In instances where we have discretionary authority to determine the types and amounts of securities to be bought or sold for the Private Fund and SMA clients, the broker or dealer to be used and the commission rates to be paid, Cognios conducts an analysis based on its policies and procedures. The factors involved in the broker or dealer selection include transaction costs, reliability of the broker, service level and other services provided (i.e. prime brokerage).

The commissions paid by clients comply with our duty to obtain "best execution." Clients may pay commissions that are higher than that which they could obtain at another financial institution to effect the same transaction. Our analysis helps us determine the reasonableness of commissions in relation to the value of the brokerage, execution and related services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of services, including without limitation, execution capability, commission rates, responsiveness and other functions performed or services offered by the broker. We seek competitive rates but may not obtain the lowest possible commission rates for client transactions.

Subject to our policy of seeking best execution for transactions, and subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 (the "1934 Act"), when we have broker discretion, we may place trades with a broker that provides brokerage and research services to us. We may have an incentive to select or recommend a broker based on our interest in receiving research or other products or services, rather than on our clients' interest in receiving most favorable execution. We do not use client brokerage commissions (i.e. soft dollars), markups or markdowns to obtain research or other products or services.

The custodians and brokers used by Cognios may make available other products and services that assist us in managing and administering your account. These include access to client account data (such as duplicate trade confirmations and account statements), facilitation of trade execution, educational conferences and events, and facilitation of payment of our fees from clients' accounts.

We may suggest brokers to separately managed account clients. We base our recommendations on service levels and also with the objective of minimizing transaction costs. In these instances, the commissions paid by clients comply with our duty to obtain "best execution."

With respect to separately managed accounts, from time-to-time the clients may direct brokerage transactions through their custodians or other brokerage firms. Accordingly, we will be unable to seek the best available price and most favorable execution of such clients' portfolio transactions. Consequently, such clients may not necessarily obtain execution of transactions or brokerage rates as favorable as those which might be obtained through an investment adviser that does undertake to select brokerage firms or to negotiate rates with those selected firms. Furthermore, the fees and charges payable under this arrangement may be higher than the aggregate amount of fees and charges such clients would pay if the client (or Cognios) were to negotiate the fees and charges of each service provider and securities transaction separately.

We may aggregate orders of securities for multiple client accounts. We may aggregate sale and purchase orders of securities held by our clients with similar orders being made simultaneously for other clients if such aggregation is reasonably likely to result in overall economic benefit to clients based on an evaluation that the clients are 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 some instances, the purchase or sale of securities for clients will be effected simultaneously with the purchase or sale of like securities for other clients. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions is determined and the client may be charged or credited, as the case may be, the average transaction price.

Cognios may use pro rata allocation when an aggregated order cannot be fully executed in a single day. In such cases, the portion of the order filled on a particular day is generally allocated among participating accounts based on the size of each account's order. Such allocations are subject to rounding to achieve "round lots" and the firm's ability to cancel or modify an order for one or more accounts if, the firm believes that as a result of the incomplete fill, the order is no longer appropriate for such accounts. Cognios may apply a minimum order allocation amount,

which may vary based on a market convention associated with the particular security. Where remaining positions are too small to satisfy the minimum allocation amount, we may decide to allocate the remaining shares to those accounts seeking large positions which remain unfilled or to allocate remaining shares to those accounts whose order would be completed as a result of the allocation.

Cognios may allocate on a basis other than pro rata if, under the circumstances, such other method is reasonable, equitable, does not result in improper or undisclosed advantage or disadvantage to a particular account or group of accounts and results in fair access, over time, to trading opportunities for all eligible accounts. For example, we may identify investment opportunities that are more appropriate for certain accounts than others and may determine to allocate a partial fill to such accounts. Factors which the firm may consider in making allocation decisions include, among others: investment objectives and restrictions, cash availability and changes in cash flows, including current or anticipated redemptions, exchanges and capital contributions/withdrawals. Other allocation methods which may be used by the firm include random and rotational allocation. Such allocation methods may be particularly appropriate when the transaction size is too limited to be effectively allocated pro rata among all eligible accounts.

#### *Trade Errors*

On infrequent occasions, an error may be made in a client's account. For example, a security may be erroneously purchased for a client account instead of sold. In these situations, Cognios generally seeks to correct the error by placing the client account in a similar position as it would have been had there been no error, at no cost to the client. Depending on the circumstances, corrective steps may be taken, including but not limited to, cancelling the trade, adjusting an allocation, and/or crediting the customer's account. In the event the trading error results in a profit, the profit is retained by the client.

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

Our compliance staff and portfolio managers review each of our accounts on a regular basis. NAV Consulting acts as a fund administrator and provides investors in the Private Funds account statements on a monthly basis. SMAs are reviewed with clients periodically on a schedule negotiated with the clients.

### **Item 14 - Client Referrals & Other Compensation**

If you purchase the Mutual Funds through a broker-dealer or other financial intermediary (such as the fund's distributor, financial institutions, plan sponsors and administrators, and other financial intermediaries through which investors may purchase shares of the fund), Cognios and or its affiliates may pay the intermediary for the sale of fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend our funds over another investment. Please contact your financial intermediary or plan administrator or sponsor for details about revenue sharing payments it may receive.

Cognios has entered into a marketing and referral agreement with an unaffiliated third party to market the Cognios Market Neutral Large Cap mutual fund to various advisor prospects and institutional prospects. Compensation will generally consist of a percentage of gross investment advisory fees received by the firm under the agreement.

### **Item 15 - Custody**

While we do not maintain physical possession of any client's securities or assets, we are deemed to have custody of the Private Funds assets. Custody of the Private Funds assets are maintained with a bank or brokerage firm (the "Custodian") selected by us in our discretion, which selection may change from time to time.

Each Private Fund partner receives, as soon as practicable (within 120 days except under certain unforeseeable circumstances), following each fiscal year of the Private Funds an annual financial statement prepared in accordance with U.S. generally accepted accounting principles and audited by an independent certified public accounting firm that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board in accordance with its rules.

Custody of assets in separately managed accounts are maintained with a bank or brokerage firm (the “Custodian”) selected either by the client or by Cognios. We are deemed to have custody of SMA assets, if, for example, the client authorizes us to instruct the Custodian to deduct advisory fees directly from the account. SMA clients receive account statements directly from the Custodian at least quarterly. Clients should carefully review those statements promptly upon receipt.

We may also be deemed to have custody of client assets for certain clients who are affiliates or owners of Cognios. This determination is due to the fact that a related person or adviser is deemed to have custody. As such, Cognios is subject to an annual surprise verification of certain client assets by an independent public accountant.

## Item 16 - Investment Discretion

In our role as investment manager of the Private Fund, the Fund Agreements grant us full authority to manage the assets and affairs of the Private Fund. With respect to separately managed accounts that are under discretionary management, we are granted full authority to manage the assets of the accounts subject to the Investment Management Agreement signed by the client and Cognios. All clients who grant discretionary authority to Cognios must do so in writing via an Investment Management Agreement or an amendment thereto. With respect to non-discretionary separately managed accounts, Cognios provides investment advice to the client and the client decides whether or not to follow some or all of the recommendations. Clients in separately managed accounts may place restrictions on their accounts.

## Item 17 - Voting Client Securities

We generally do not take any action or render any advice with respect to voting proxies solicited by, or with respect to, the issuers of any client securities, except to the extent otherwise required by law. Thus, we vote proxies for the Private Fund and Mutual Funds as required. Cognios also votes proxies according to the terms of certain sub-advisory contracts. It is our policy not to vote proxies for standard SMAs.

If the client agreement is entered into by a trustee or other fiduciary on behalf of an employee retirement income plan subject to the Employee Retirement Income Security Act (“ERISA”), including a person meeting the definition of “fiduciary” under ERISA, the trustee or other fiduciary generally retains the right and obligation to vote proxies. In such cases, Cognios is generally precluded from voting proxies for the plan.

Our proxy voting procedures provide that we vote proxies in our clients’ interests, and that if we identify a material conflict of interest between us and the client, we will vote based upon the recommendation of an independent third party. In certain circumstances, in accordance with an investment advisory contract, or other written directive, or if we have determined that it is in the client’s best interest, we may refrain from voting proxies.

Upon written request, a client will be provided with our proxy voting policies and procedures. Clients may also request, in writing, copies of records regarding how we voted their securities. Written requests must be addressed to: Cognios Capital, LLC, Attn: Chief Compliance Officer, 11250 Tomahawk Creek Parkway, Leawood, KS 66211.

## Item 18 - Financial Information

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