

**Part 2A of Form ADV: *Firm Brochure***

**AKANTHOS CAPITAL MANAGEMENT, LLC**

21600 Oxnard Street, Suite 1758  
Woodland Hills, CA 91367-7584

Telephone: (818) 883-8270  
Facsimile: (818) 883-8271  
E-mail: [info@akanthoscapital.com](mailto:info@akanthoscapital.com)  
Web Address: [www.akanthoscapital.com](http://www.akanthoscapital.com)

September 7, 2018

This brochure provides information about the qualifications and business practices of Akanthos Capital Management, LLC ("ACM" or "we"). If you have any questions about the contents of this brochure, please contact us at (818) 883-8270 or at [info@akanthoscapital.com](mailto:info@akanthoscapital.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 ACM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We have included in this brochure references to products such as private investment funds *solely* for the purpose of describing our advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.

## Item 2. MATERIAL CHANGES

This brochure is an update to our previous brochure, which we filed with the SEC on March 19, 2018. The following is a summary of the material changes (and only the material changes) that we have made to our previous brochure:

- We have updated our Form ADV Part 1A and this Form ADV Part 2A disclosure brochure to reflect our new office address, effective September 7, 2018:

**21600 Oxnard Street, Suite 1758 Woodland Hills, CA 91367-7584**

You should read this brochure in its entirety to understand our business.

### Table of Contents

Item	Section	Page Number
1	Cover Page	1
2	Material Changes	2
3.	Table of Contents	2
4.	Advisory Business	3
5.	Fees and Compensation	4
6.	Performance-Based Fees and Side-by-Side Management	7
7.	Types of Clients	7
8.	Methods of Analysis, Investment Strategies and Risk of Loss	7
9.	Disciplinary Information	12
10.	Other Financial Industry Activities and Affiliations	12
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	12
12.	Brokerage Practices	14
13.	Review of Accounts	18
14.	Client Referrals and Other Compensation	18
15.	Custody	18
16.	Investment Discretion	19
17.	Voting Client Securities	19
18.	Financial Information	19

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

ACM is an SEC-registered investment adviser with its principal place of business in Woodland Hills, California. Although ACM is a registered investment adviser, registration itself does not require and should not be interpreted to imply any particular level of skill or training. ACM was founded in 2002 by Mr. Michael Kao. Mr. Kao currently owns 100% of ACM.

We currently offer discretionary investment advisory services to two private investment funds for whom we act as general partner and/or investment adviser (each, a “Fund” and collectively, the “Funds”) and to one Managed Account (the “Managed Account”) for whom we act as sub-adviser. While the Funds and the Managed Account are our only current clients, we may in the future organize and/or serve as investment manager and/or general partner to other investment vehicles and/or separately managed accounts.

The Funds are organized in a “master feeder” structure. One of the Funds (the “Feeder Fund”) invests substantially all of its assets in, and conducts substantially all of its investment activities through, the Master Fund. The Feeder Fund (the “Onshore Fund”) is organized as a domestic partnership. We act as the general partner and investment adviser to the Onshore Fund.

We manage each Fund pursuant to the objectives specified in the materials by which the Fund offers its ownership interests to investors. Our agreements with the Funds generally impose no limits on the types of securities or other instruments in which the Funds may invest, the types of positions they may take, the concentration of their investments by sector, industry, fund, country, class or otherwise, the amount of leverage they may employ or the number or nature of short positions they may take. The Funds’ investors do not have the right to specify, restrict, or influence their Funds’ investment objectives or any investment or trading decisions.

ACM and the Funds may enter into “side letter” agreements with certain investors which terms differ from the interests generally offered to investors with respect to, among other things, the Incentive Allocation (as defined below) and Management Fee (as defined below), redemption and withdrawal rights (including more frequent redemption or withdrawal dates), informational rights and other rights. ACM and/or a Fund may enter into “side letter” agreements without providing prior notice to, or receiving consent from, existing investors. The terms of such “side letters” will be determined by ACM and/or such Fund in their sole discretion.

We manage the Managed Account according to strategies similar to those of our Funds, subject to certain investment restrictions or other special terms that do not apply to our Funds (the “Managed Account Terms”). Those restrictions and special terms were the result of negotiations with our Managed Account client and are tailored to the individual needs of that client.

We may, from time to time, sponsor and manage investment vehicles on a transaction-by-transaction basis to allow certain persons to invest alongside one or more Funds in specific portfolio investments and other assets of the Funds (each such vehicle, a “Co-Investment Fund”). Co-Investment Funds are typically limited to investing in securities relating to the transaction or transactions with respect to which they were organized. As a general matter, co-investments by Co-Investment Funds may be on terms and conditions more favorable than the terms and conditions of the investment by the applicable Fund and existing investors may be disadvantaged as a result thereof. Such favorable terms may include

liquidity terms, expense and fee allocation terms, and opportunities to invest in future investments.

We may also offer co-investment opportunities directly to existing investors, new investors or third parties, which will be subject to co-investment agreements offered as single or dual investor funds.

**Assets:** As of December 31, 2017, we had approximately \$105,880,524 in regulatory assets under management (computed under applicable SEC rules). We manage all of our clients' assets on a discretionary basis.

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

### ***Funds.***

**Management Fees.** For the services we provide to the Funds as their investment adviser, we receive management fees paid quarterly in advance. These management fees are calculated as to each investor in the Feeder Fund, with the amount of the management fee as to each such investor equal to a specified percentage (the "quarterly management fee rate") times the net asset value of the investor's investment in the Feeder Fund as of the last day of the immediately preceding calendar quarter. The quarterly management fee rate generally ranges from between 0.25% (i.e., approximately 1.00% per year) to 0.375% (i.e., approximately 1.50% per year), depending on the investor. While our management fees are not generally negotiable, we may vary (or waive altogether) the management fees as to particular investors by separate agreement.

**Performance Fees and Allocations.** As the general partner of the Onshore Feeder, we are generally entitled to receive an "incentive allocation," calculated annually as to each limited partner (and upon any withdrawal) in an amount equal to a specified percentage (the "incentive allocation rate") times any increase in the net asset value of the limited partner's investment in the Onshore Feeder over the current year (prorated for partial mid-year withdrawals), but only to the extent that increase exceeds a high water mark. The incentive allocation rate ranges from between 10% to 20%, depending on the limited partner.

The Feeder Fund generally pays incentive fees or makes incentive allocations at the end of each calendar year and whenever Fund investors withdraw capital, but then only in relation to the amount of capital withdrawn. For each period, the foregoing fees and allocations are the aggregate of amounts calculated separately for each investor or group of investors in the Feeder Fund. They are not generally negotiable, but our agreements with the Fund(s) give us the authority to vary (or waive altogether) them for particular investors. Once paid, incentive fees and incentive allocations are not reduced by losses incurred in later periods.

**Withdrawal Fees.** Investors in our Feeder Fund may, when subscribing for interests in the fund, agree to restrictions on their ability to withdraw capital ("lock-up restrictions"). As to investors who seek to withdraw capital other than pursuant to these lock-up restrictions, we may charge "withdrawal fees" ranging from 1.5% to 3.5% of the amount redeemed or withdrawn payable to ACM.

### ***Managed Account***

**Management Fees.** For the services we provide to the Managed Account as its investment adviser, we receive management fees paid quarterly in arrears. The amount of each monthly installment of the management fee is equal to 0.25% (i.e., approximately 1.0%

per year) times the net asset value of the assets in the Managed Account as of the last business day immediately following the calendar quarter.

*Performance Fees.* The Managed Account also pays us an “incentive fee,” calculated annually (and upon any withdrawal from the account) in an amount equal to 10% of the amount by which the NAV of the Account (before application of the current Performance Fee and after taking into account the Management Fee and other expenses borne by the Account) exceeds the Hurdle; however, the Performance fee is only paid on the amount of outperformance that exceeds the loss carryforward account balance.

### ***Co-Investment Funds***

Management fees, performance-based fees and other forms of compensation payable to us by a Co-Investment Fund together with other terms governing the management of the Co-Investment Fund sponsored and managed by us, are established by ACM at the time of the establishment of the relevant Co-Investment Fund. Specific details of such compensation and its method of calculation are set out in the offering materials, disclosure documents, management agreements and/or governing documents of the Co-Investment Fund. Fee terms for a Co-Investment Fund may be changed during the term of the relevant relationship. The share of compensation earned by ACM or its affiliates in respect of a Co-Investment Fund may vary among investors pursuant to the terms of the governing documents, side letter agreements or other arrangements with specific investors in such Co-Investment Fund, whereby such investors receive direct or indirect reductions of management fees or other compensation otherwise payable with respect to their investments managed by ACM. Such arrangements may include ACM granting certain preferential terms to certain investors in a Co-Investment Fund. Where a strategic investor participates in a Co-Investment Fund through a dedicated investment vehicle as part of such arrangement, such vehicle may be granted terms, including management fees or carried interest, that may be more favorable than those applicable to other investors.

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

The Feeder Fund bears all of its operating expenses and its pro rata share of the operating expenses of the Master Fund as defined in its offering memoranda. Similarly, the Managed Account bears all of its operating expenses as defined in its investment adviser agreement. These operating expenses include:

- brokerage and execution charges and commissions;
- custodial charges;
- fees for quotation and other data services;
- consulting and software licensing fees related to accounting, trading, portfolio management and risk management systems;
- research subscriptions and expenses;
- legal and consulting fees related to investment research;
- broken deal fees;
- expenses to register securities and transfer taxes;
- U.S. federal, state and local taxes, filing and registration fees;
- expenses relating to investor and potential investor communications and (including travel costs);
- accounting and the preparation and mailing of financial, tax and performance information to investors;
- Fund administration fees, costs and expenses; and

- fees for attorneys, accountants, consultants and other professionals or experts.

For a more detailed discussion of brokerage and transaction costs, clients are directed to “Item 12: Brokerage Practices.”

### ***Prepayment of Fees***

As noted above, the Feeder Fund pays management fees to us quarterly in advance. Fund investors are generally allowed to withdraw capital as of the end of a calendar quarter, at which time there generally will be no prepaid fees. We are not required to refund any portion of our management fee if the Feeder Fund allows an investor to withdraw as of a time other than a calendar quarter-end, however.

If we were to terminate our status as general partner or investment manager of the Feeder Fund at a time other than as of the end of a quarter, we would refund to the Feeder Fund a portion of the management fee that was paid at the beginning of the termination quarter, pro-rated based on the number of days remaining in that quarter.

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

While we have the right to waive incentive fees or incentive allocations as to particular investors in the Feeder Fund, we manage the Feeder Fund assets as an undivided pool through the Master Fund. We also generally manage the Managed Account in parallel with the Master Fund (subject to the Managed Account Terms) and are entitled to incentive fees from the Managed Account at negotiated rates with the Managed Account. We do not believe that our performance-based fee arrangements give rise to incentives to favor any particular client over another. Our potential to receive incentive fees or allocations, and the fact that we will not have to refund any such fees or allocations if our clients later experience losses, may nevertheless create an incentive for us to make investments that are riskier or more speculative than would otherwise be the case.

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

The Funds are privately-offered investment funds that are not regulated under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) because of Section 3(c)(7) thereof (or, in the case of the Master Fund, its adherence to the substantive provisions of Section 3(c)(7) as to U.S. investors). Each Fund imposes minimum investor qualification standards and minimum investment requirements.

The Managed Account is a pooled investment vehicle that, based on representations to us, is not regulated under the Investment Company Act.

Each of the Funds and the Managed Account are “qualified clients” under Rule 205-3 of the Investment Advisers Act of 1940, as amended.

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

### ***Methods of Analysis***

*Fundamental Analysis.* Our investment strategy is driven by a fundamental research discipline and collaboration. Fundamental analysis attempts to measure the intrinsic value of a security by examining macroeconomic and financial factors (including the overall economy, industry conditions, the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

We do not adhere to any rigid formula for choosing investment securities, and believe that fundamental analysis and price discipline are key factors in the successful selection of investments. ACM pursues a “bottom-up” strategy of analysis and portfolio construction, with positions selected one security at a time while taking into consideration macroeconomic factors, prevailing market conditions, our assessment of the risk/reward profile, our conviction level and liquidity with respect to determining position size.



We firmly believe that fundamental analysis wins out over time and that, with proper price discipline, absolute returns consistent with our clients' objectives can be generated. A key tenet of our investment philosophy is the belief that the investment business is not formulaic; rather, there are numerous factors that contribute to a successful investment. Factors studied by us include: financials, quality of business, quality of management, industry dynamics, and changes in the competitive landscape, character of the shareholder base, and prevailing market sentiment.

Fundamental analysis does not attempt to anticipate short term market movements. This presents an inherent potential risk in the fundamental analysis approach, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the particular security.

As an adjunct to our "fundamentals driven" approach, we may also employ methods of "technical analysis," where we analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly- managed or financially unsound company may underperform regardless of market movement.

### ***Investment Strategies and Risk of Loss***

The following is a summary of some of the material risks associated with our investment strategies. As a summary, it is inherently incomplete and does not attempt to describe all of the risks associated with those strategies.

**All investments involve the risk of loss, including (among other things) loss of principal, a reduction in earnings (including interest, dividends, and other distributions), and the loss of future earnings. These risks include market risk, interest rate risk, issuer risk, and general economic risk. Although we manage the assets in a manner consistent with risk tolerances, there can be no guarantee that our efforts will be successful. Investing in securities involves a risk of loss that clients should be prepared to bear.**

In managing our clients' portfolios, we generally seek capital appreciation through a relative-value investment approach. Our investments generally have asymmetric risk-return profiles that possess greater upside potential than downside potential through investing and trading in various forms of arbitrage strategies, including but not limited to, convertible arbitrage, capital structure arbitrage, event driven, and relative value arbitrage.

*Convertible Arbitrage.* Convertible arbitrage typically involves buying a convertible security and simultaneously shorting the stock into which the security is convertible. Capital structure arbitrage includes convertible arbitrage but may also involve the simultaneous buying and selling of other correlated securities issued by a company, which may include non-convertible corporate debt and preferred securities. We frequently blend these strategies in an attempt to profit from both the convergence in pricing inefficiencies that arise from capital structure volatility and the receipt of cash flows consisting of coupons, dividends, and income from short rebate proceeds, net of financing and hedging costs. Through these strategies, we seek to create a portfolio of option-like payoffs with uncapped upside and limited downside, but without necessarily having predetermined catalysts or exit strategies.



*Event-Driven Arbitrage.* Event-driven arbitrage opportunities typically arise with the occurrence of certain corporate events, such as impending bond maturities and put expirations, mergers, acquisitions, spin-offs, bankruptcies, self-tenders, exchange offers, changes in management, restructurings and other reorganizations. Relative value inefficiencies may arise between securities issued by one company and between the securities of one company and another, particularly in the case of mergers, that create explicit correlations between previously unrelated securities. Event-driven arbitrage trades typically have capped upside parameters but also have predefined selling catalysts and/or exit strategies.

*Relative Value Arbitrage.* Relative-value bets typically have long and short components that shield our returns from directional movements while allowing for value convergence between components. The relative-value nature of these strategies allows for investment gains based on the relationship between or among securities independent of directional movements in the underlying securities or the broader markets. As a result, we believe these relative-values strategies should exhibit lower standard deviations in their returns than strategies that speculate on directional movements in the market prices of the underlying securities.

Special risks are associated with the use of the above arbitrage techniques. The success of the arbitrage strategies depends on our ability to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the capital markets. Identification and exploitation of the arbitrage strategies to be pursued by us involves uncertainty. There can be no guarantee of a correlation between the price movements of different investments. A lack of correlation could result in a loss on both sides of such a transaction. In addition, a decision as to whether, when and how to use arbitrage strategies involves the exercise of skill and judgment that are different from those needed to select portfolio securities, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior, currency fluctuations or interest rate trends. If we are incorrect in the strategies' forecasts regarding correlation, market values, interest rate trends or other relevant factors, the outcome of the strategies may result in the loss of capital. In addition, arbitrage strategies may result in greater portfolio turnover and, consequently, greater transactions costs.

### ***Other Risks***

*Reliance on Management and Key Personnel.* Our investment advice depends on the judgment and analysis of our investment professionals, including Mr. Kao in particular. Should Mr. Kao or any of those other professionals terminate their relationship with us, die or become otherwise incapacitated for any period of time, our clients could experience losses.

*Effect of General Economic Conditions.* The success of our investment strategies may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, developments in governmental regulation and national and international political circumstances. These factors may affect the success of the businesses in which our client portfolio companies are engaged, as well as the markets for securities in those

client portfolio companies. Unexpected volatility or illiquidity could result in client losses.

*Portfolio Turnover.* There may be times when we cause our clients to engage in significant short-term trading. High portfolio turnover involves, among other things, high transaction costs, particularly through increased brokerage costs and taxes.

*Use of Derivatives.* The use of derivatives can lead to losses because of adverse movements in the value of the asset, index, rate or instrument underlying a derivative, failure of a counter party, or adverse impacts from changes in taxation or regulation. Derivatives may create economic leverage in a client portfolio, which magnifies the portfolio's exposure to the underlying investment. Derivatives risk may be more significant when derivatives are used to enhance return or as a substitute for a position or security, rather than solely to hedge the risk of a position or security held by a client portfolio. Derivatives for hedging purposes may not reduce risk if they are not sufficiently correlated to the position being hedged. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Derivative instruments may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. If a derivative counterparty is unable to honor its commitments, the value of a client portfolio may decline and/or the portfolio could experience delays in the return of collateral or other assets held by the counterparty. The loss on derivative transactions may substantially exceed the initial investment.

*Inaccurate Data.* Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

*Concentration of Investments.* We are not limited to any one industry or sector. At times, we may have a material portion of a Fund's or account's investments concentrated in one or more selected industries or sectors, such as energy for example. Accordingly, there may be times when a Fund or account is exposed to a high level of industry or sector specific risk, such industry/sector related investor sentiment and/or general industry/sector valuation levels. Further, certain other risks which are shared by all companies in those industries may not be diversified out of the portfolio, and include, but are not limited to, interest rate risk, credit risk, supply or demand imbalances or volatility, pricing power risk, regulatory risk, technological obsolescence, employee relations, management, asset write-downs, inflation risk, deflation risk, competition, growth rate, consumer or supplier sentiment, capital spending volatility, income statement or balance sheet or cash flow statement volatility, legal risk, financial and accounting risk, strategic risk, geopolitical risk, and currency risk.

*Leverage.* We anticipate using a degree of margin and leverage, which may be high at times. Such leverage increases both the possibilities for profit and the risk of loss. At times we may hold a relatively large amount of debt. The borrowings typically will be secured by each portfolio's securities and other assets. Under certain circumstances and applicable federal laws that limit the amount of borrowings that may be secured by securities, a broker-dealer may seek or be forced to demand an increase in the collateral that secures each portfolio's investment's obligations. If we are unable to deposit additional collateral or in certain other circumstances, the broker-dealer may elect, or be

forced to, liquidate assets held in portfolios to satisfy the obligation to the broker-dealer and applicable margin regulations. The amount of the borrowings and the interest rates on those borrowings, which may fluctuate, could have a significant effect on an investment's and a portfolio's profitability.

Portfolios may be adversely affected by a decrease in market liquidity for the instruments in which we invest which may impair our ability to adjust portfolio positions. For example, changes in overall market leverage, deleveraging as a consequence of a decision by our prime brokers and custodians (or other counterparties with which we may enter into repurchase/reverse repurchase agreements or derivative transactions) to reduce the level of leverage available, or liquidation by other market participants of the same or similar positions, may adversely affect a portfolio. Additionally, rising interest rates could adversely limit our ability to use leverage efficiently.

*Conflicting Investor Interests.* Investors may have conflicting investment, tax, and other interests with respect to their investments in a Fund. Conflicts may arise when our investment decisions may be more beneficial to one investor than another, especially with respect to tax matters. In structuring, acquiring and disposing of investments, ACM will consider the investment and tax objectives of a Fund and its investors as a whole, not the investment, tax, or other objectives of any investor individually.

*Cybersecurity.* Increased reliance on internet-based programs and applications to conduct transactions and store data creates growing operational and security risks. Targeted cyberattacks or accidental events can lead to breaches in computer and data systems security, and subsequent unauthorized access to sensitive transactional and personal information held or maintained by ACM, its affiliates, and third party service providers or counterparties. Any breaches that occur could result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to investors and the beneficial owners of investors, and may lead to theft, data corruption, or overall disruption in operational systems. The information and technology systems of ACM, the Funds and our clients may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. These risks have the potential to disrupt ACM's ability to engage in transactions, cause direct financial loss and reputational damage or lead to violations of applicable laws related to data and privacy protection and consumer protection.

*Pay-to-Play.* A number of U.S. states and municipal pension plans have adopted so-called "pay-to-play" laws, regulations, or policies that prohibit, restrict, or require that individuals or entities seeking to do business with state entities, including those seeking investments by public retirement funds, disclose payments to and/or contracts with state officials. The SEC has adopted rules prohibiting investment advisers from providing advisory services for compensation to a government client for two years after the adviser or certain of its executives, employees, or agents makes a contribution to certain elected officials or candidates. If ACM, any of its employees or affiliates, or any service providers acting on its behalf fail to comply with such laws, regulations, or policies, it could adversely affect the Funds or clients.

All investments involve different degrees of risk. You should be aware of your risk tolerance level and financial situations at all times. We cannot guarantee the successful performance of an investment and we are expressly prohibited from guaranteeing

Funds' and/or clients' accounts against losses arising from market conditions.

**Item 9. Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither our firm nor our management personnel have reportable disciplinary events to disclose.

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

Neither we nor any of our employees are registered, or have an application pending to register as a broker-dealer or registered representative of a broker-dealer, futures commission merchant, or commodity pool operator. Neither we nor any of our employees have any relationships or arrangements with other financial service companies that pose material conflicts of interest.

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

ACM has adopted a Code of Ethics (our "Code") which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by our access persons. Among other things, our Code requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code provides for oversight, enforcement and recordkeeping. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to the Chief Compliance Officer, at the firm's principal office address.

It is ACM's express policy that no person employed by us may usurp an investment opportunity that may be appropriate for one or more of our clients without first presenting the opportunity to our investment team, particularly when there is limited availability for participation in the opportunity.

Certain executive officers of ACM may make direct investments in one or more of the underlying portfolio companies in which our clients have invested. As these situations represent a conflict of interest, we have established the following restrictions in order to ensure its fiduciary responsibilities:

- No officer or employee of our firm may prefer his or her own interest to that of an advisory client.
- We maintain a list of all securities holdings for our firm and anyone associated with this advisory practice with access to these holdings. These holdings are updated on a regular basis by our Chief Compliance Officer.
- All of our principals and employees must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
- Any individual not in observance of the above may be subject to disciplinary action

up to and including termination.

***Participation or Interest in Client Transactions and Personal Trading.*** We have adopted a personal investment trading policy based on the following principles: (i) the interest of client accounts will at all times be placed first; (ii) all personal securities transactions will be conducted in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; and (iii) supervised persons must not take inappropriate advantage of their positions. Our personal trading policy requires that every access person must obtain approval from our Chief Executive Officer before acquiring for any personal account any covered securities. Additionally our Chief Compliance Officer maintains a "restricted list" of certain securities. Access persons are prohibited from purchasing or selling such securities during any period they are listed. Moreover, employees are not permitted to invest in any company, whether or not the issuer of publicly-traded securities, when the employee believes there is a reasonable chance we may want to make an investment in that company for a client in the future. We have policies and procedures in place to ensure that our associated persons are aware of the rules regarding material non-public information and insider trading.

## **Item 12. Brokerage Practices**

We generally have complete discretion in deciding what brokers, dealers, and other financial intermediaries and counterparties our clients will use in executing or entering into portfolio transactions (collectively, "Transacting Parties"). We also have complete discretion to negotiate compensation arrangements and transaction terms with Transacting Parties. These arrangements may include not only paying commissions for transactions effected on any agency basis, but also compensation implicit in prices of transactions directly with Transacting Parties acting as principal (such as market-makers for over-the-counter securities) and dealers in fixed income securities and derivatives. The following describes some noteworthy aspects of our and the Funds' use of and relationships with Transacting Parties.

As an SEC-registered investment adviser, we have a general duty to seek "best execution" for our clients' securities transactions. What constitutes "best execution," and determining how to achieve it, are inherently uncertain, however. In choosing Transacting Parties, we are not required to consider any particular criteria. In evaluating whether a Transacting Party will provide best execution, we consider a range of factors. These include, among others:

- historical net prices (after markups, markdowns and other transaction-related compensation);
- the Transacting Party's execution, clearance and settlement and error correction capabilities generally and in connection with securities of the type and in the amounts to be bought or sold;
- the Transacting Party's willingness to commit capital;
- the Transacting Party's reliability and financial stability;
- the size of the transaction;
- the availability of securities to borrow for short sales;
- the market for the security; and
- as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party.

We are not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party can provide execution quality comparable to other Transacting Parties. Clients should therefore expect at times to pay more than the lowest transaction cost available in order to obtain for themselves and/or us services and products other than the execution of securities transactions.

### ***"Soft Dollars"***

We may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide to our Funds or our other clients, or to ourselves. Selecting a Transacting Party in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars." The use of soft dollars is common in the professional management of securities portfolios.

*Conflict of Interest.* When we use "soft dollars" to obtain research or other products and services, we receive a benefit because we do not have to produce or pay for that research or those other products or services using cash from other sources. And, because many products and services that we may receive from Transacting Parties may



provide general benefits to us, our interests in allocating our Funds' and other clients' securities transactional business may conflict with those of our Funds or other clients. For example, we may have an incentive, in order to induce brokers and dealers to provide us with services or benefits to, among other things, cause a Fund or other client to:

- pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products;
- place more trades than would be optimal for that Fund's or other client's investment strategy;
- use broker-dealers that do not obtain for a Fund or other client the best possible price on portfolio transactions; and
- use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions.

The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. We may or may not use one clients' soft dollars to pay for services and products that benefit another client and, if we do, that benefit may not be in proportion to account size, transaction volume, or uses of those services and products.

*Section 28(e) Safe Harbor.* A federal statute, Section 28(e) of the Securities Exchange Act of 1934, as amended, recognizes the potential conflict of interest involved in the use by an investment manager (such as ACM) of soft dollars to pay for various expenses but provides a "safe harbor" from breach of fiduciary duty claims if certain conditions and requirements are met. Under the safe harbor, soft dollars may be used to acquire "research" and "brokerage" services and products for which our Funds or other clients would not otherwise be required to pay. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited. Nevertheless, we generally intend to use soft dollars (including markups and markdowns on principal transactions where protected) for purposes, and in ways, that satisfy the requirements of the Section 28(e) safe harbor. Even where our use of soft dollars to acquire research and brokerage services and products is protected by Section 28(e), we will have a conflict of interest in connection with that use because we might otherwise have to pay cash for those services and products and we may have an incentive to use Transacting Parties who provide those services and products more than we otherwise would.

### ***Cross Transactions***

We may, on a limited basis, cause our clients to effect "cross" transactions with each other (i.e., buy and sell securities from and to each other), subject to applicable law or regulation. We may do so if we believe that the cross transaction will be beneficial to both parties. We may use an unaffiliated broker-dealer or custodian to cross investments and/or cash between clients when such a transaction is advantageous for each participant. To reduce the possibility that such a conflict will arise, whenever effecting a cross trade is desired, whether or not a broker is involved, the following conditions must be satisfied prior to the transaction:

1. The cross trade is reviewed and approved by the CCO or designee.
2. No compensation will be received by ACM in connection with the cross trade.



3. Clients participating in the cross trade provide written approval, when required.
4. If an ACM sponsored fund is a party to the cross trade, then any notification or approval requirements included in an investor side letter are met.
5. Any client that is subject to ERISA will generally not be permitted to participate in a cross trade. Exceptions to this restriction must be pre-approved by the CCO or designee.
6. ACM does not own 25% or more of the capital structure of a fund, Co-Investment Fund, SPV or managed account participating in the cross trade and is not otherwise a party to the cross trade.
7. Rule 17a-7 under the Advisers Act must be satisfied if an investment company is party to the cross trade.

### **Principal Transactions**

Because Mr. Kao, our controlling person, has significant beneficial ownership of our Funds, transactions between our Funds and our other clients may be deemed to be “principal transactions” under Section 206(3) of the Adviser Act (“Section 206(3)”). We will ensure, however, that all such transactions are conducted in compliance with the disclosure and consent requirements of Section 206(3). Accordingly, before completing any transaction between any of our Funds and any other client that may be deemed to be a “principal transaction” under Section 206(3), we will: (i) disclose to the client, in writing, the material facts relating to that transaction, including: (a) the fact that, due to Mr. Kao’s level of ownership in the Funds, ACM may be deemed to be acting as a “principal” and that in that capacity it faces a conflict of interest in recommending the transaction to the client; (b) the price at which ACM proposes to effect the transaction; and (c) all relevant pricing information (including contemporaneous market quotations) known to ACM; and (ii) request, and obtain, written consent from the client to the transaction.

### **Aggregation of Orders**

We may combine our clients’ orders. When we do, we will generally allocate the purchases or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. We believe combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to one client than if that client had been the only account effecting the transaction or had completed its transaction before the other participants.

We may place orders for the same security for our clients at different times and in different relative amounts due to, among other things, differences in investment objectives, cash availability, size of order and practicability of participating in “block” transactions. The level of participation by our clients in the same security may also be dependent upon other factors relating to the suitability of the security for the particular client.

### **Directed Brokerage; Prime Brokerage**

We do not have any “directed brokerage” arrangements with the Funds or the Managed Account. While not “directed brokerage,” the Funds and/or the Managed Account may pay a portion of their own costs using soft dollars. In particular, the Master Fund obtains custodial, clearing and related services through what is known as a “prime brokerage” arrangement. By using brokerage firms for these functions the Master Fund avoids paying custodial fees that banks charge other institutional investors. Prime brokers are

compensated through brokerage commissions, interest on credit balances, margin borrowings, and stock loans. The Master Fund might be thought of as “directing” us to place transactions with a prime broker in order to pay for the custodial, clearing and related services the Master Fund obtains from the prime broker.

A prime broker may provide services to us and/or our affiliates, distinct from the custodial, lending and related services the prime broker provides to the Master Fund and other clients. These services may include, among other things, information technology, website hosting, portfolio management software license and support service, consulting services with respect to various aspects of our business and introducing us to prospective advisory clients and prospective investors in the Funds and other investment funds we manage. They may be provided at lower than the market price for similar services or for no charge. A prime broker may also enter into financial transactions with us or our affiliates, and these transactions may be on terms more favorable than the terms available with other counterparties. These transactions might include lending money to us or our affiliates or investing in the Funds. To the extent we or our affiliates receive services from a prime broker at lower than market prices, or enter into transactions on terms better than terms available in the market, or collect fees from investments by a prime broker into the Funds, because we are responsible for selecting the prime broker or negotiating the rates of compensation paid to the prime broker by the Master Fund, conflicts may exist between our interests and those of the Master Fund or our other clients. We may have an incentive to cause the Master Fund to accept less favorable pricing for prime brokerage services (including interest and similar charges on margin borrowings and short positions) than might be available otherwise or to continue to use a prime broker when the Master Fund would not otherwise do so. We believe the compensation that the Master Fund pays the prime brokers is reasonable and competitive with rates charged by other prime brokers for services of comparable quality.

**Item 13. Review of Accounts**

Our principals periodically monitor the underlying securities in our clients' accounts and review these positions on a daily basis. Client positions are reviewed in the overall context of their investment objectives and guidelines as well as geopolitical and macroeconomic events. A more formal review may be triggered by changing market conditions, margining requirements and custodian holdings.

We do not provide formal reports to the Funds themselves. Investors in the Feeder Fund generally receive monthly unaudited reports in accordance with the agreements and offering documents of the Feeder Fund. In addition, the Fund(s) prepare annual financial statements that are audited by an independent certified public accounting firm, and the Fund(s) provides those statements to its investors. We also provide limited partners in the Onshore Fund with tax related information on an annual basis.

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

ACM currently has no arrangements, formal or informal, to compensate any person for client or investor referrals, nor do we or any of our affiliates receive compensation for referring clients or investors to any third party.

**Item 15. Custody**

Because we act as investment manager and/or general partner to the Funds, we are deemed to have custody of client assets under current applicable regulatory interpretations. As an adviser with custody, we seek to have each of the Funds audited on an annual basis by an independent public accountant that is both registered with and subject to regular inspection by the Public Company Accounting Oversight Board (PCAOB). It is our policy to seek to send these audited financials to each Fund investor, as appropriate, within 120 days of the applicable Fund's fiscal year end.

**Item 16. Investment Discretion**

Our agreements with the Funds generally grant us complete discretion to manage the Funds' investment portfolios, without any specific limitations. Our Managed Account client has negotiated investment restrictions relevant to its specific circumstances.

**Item 17. Voting Client Securities**

ACM will vote proxies in the best interest of our clients, typically with the goal of maximizing value for those clients' portfolios. To that end, we endeavor to vote proxies in the manner that it determines in good faith will be the most likely to cause our clients' investments to increase the most or decline the least in value. Consideration is given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote.

Clients may request a copy of our Proxy Voting Policy, as well as relevant proxy voting records, by making a written request to us at the address given on the cover page of this brochure.

*Class Action Lawsuits*

From time to time, ACM may receive notices or initiate claims regarding class action lawsuits involving securities that are or were held by clients. We reserve the right to serve as a plaintiff or in rare instances, the lead plaintiff, in class action matters. ACM may refrain from submitting proofs of claim where it believes that either the recovery amounts are likely to be negligible or it cannot be assured or confidential treatment of the data submitted in connection with the proof of claim.

**Item 18. Financial Information**

We do not charge or solicit pre-payment of more than \$1,200 in fees per client six or more months in advance. We have never filed for bankruptcy and are not aware of any financial conditions that are reasonably likely to impair our ability to meet our contractual obligations to clients.