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SEC No.: 801-77045

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**Brochure / Form ADV 2A**

**1 – INTRODUCTION**

City Financial Investment Company Limited (“City Financial” or the “Firm”) is authorised and regulated by the UK Financial Conduct Authority (“FCA”), and is registered with the U.S. Securities and Exchange Commission (“SEC”), the U.S. Commodity Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”). This brochure provides information about the qualifications and business practices of City Financial. Any questions about the contents of this brochure should be addressed to City Financial at: Tel: +44 20 7451 9600 or email: [compliance@cityfinancial.co.uk](mailto:compliance@cityfinancial.co.uk).

The information in this brochure has not been approved or verified by the SEC or any state or foreign securities authority. Registration does not imply that City Financial, or its associates, have attained a certain level of skill or training. This brochure provides information for our Funds (as defined below). Most provisions of the U.S. Investment Advisers Act of 1940 (the "Advisers Act") and of this brochure do not apply to our clients that are not US Persons.

Additional information about City Financial is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## 2 – MATERIAL CHANGES

The following items have been amended since our last Form ADV Part 2A (“Form ADV 2A”) dated March 29, 2018.

Item 7 – The Cumulus Funds are in the process of winding up. As a result of this pending closure, certain information regarding the strategy and Cumulus Funds have been removed from other areas in Form ADV 2A.

Item 10 – This has been amended to reflect that one of the Firm’s marketing employees is also a registered representative of a broker-dealer. In addition, the Firm’s Chief Compliance Officer (“CCO”) is the founder and Group Managing Director of Fleming McGillivray & Co. Limited, a regulatory consulting firm.

Item 12 – This has been amended to disclose the implementation of European Union’s Markets in Financial Instruments Directive, which have impacted how research is paid for.

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## 4 – ADVISORY BUSINESS

A privately owned company registered in the United Kingdom, City Financial was acquired in 2006 by Robert Hain, City Financial's Chairman and Chief Executive Officer, and Andrew Williams, City Financial's non-executive Vice Chairman, who together own approximately 10% of the Firm. The Firm's principal owner is MPI Capital (UK) Inc., which owns approximately 49%.

City Financial provides investment advisory services to pooled investment vehicles (the "Funds") and separately managed accounts ("SMAs") that may follow the same or a similar strategy of some of the Funds (collectively, the "Accounts" or "Clients"). The Funds are 3(c)(7) funds and are therefore exempt from registration as an Investment Company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). City Financial also serves as the investment adviser to UK and Irish registered mutual funds ("UCITS Funds").

The Firm tailors its investment management services in accordance to each fund's investment strategy as disclosed in its private placement memorandum. The Funds deal in varying asset classes, geographies and strategies, with the objective of producing risk-adjusted returns with minimal correlation to equity and fixed income markets.

The aim of City Financial is to to grow assets under management both organically (through healthy fund performance and net subscriptions) and through strategic acquisitions of pools of assets or companies. It will also partner with highly skilled teams managing diverse and innovative portfolios for alternative strategies.

The Firm's business was initially limited to acting as Authorised Corporate Director of multi asset UK mutual funds using outsourced fund managers. In 2012, the Firm took the decision to accelerate its growth by establishing an in-house investment management team, beginning with the purchase of the CF Octopus Investment Funds and fund manager, and continued with the purchase of the UK asset management arm of Eden Financial Limited. The Firm expanded its capability by the transfer of their fund management teams, along with their assets, from PCE Investors Limited. This saw the transfer of experienced fund managers and proven sales, operations, legal and compliance capabilities to the City Financial. The purchase of fund management businesses allows City Financial to create value from cost and revenue synergies and capital market trends.

City Financial does not participate in any wrap fee programs.

As of December 31, 2017, City Financial's regulatory assets under management ("RAUM") were approximately \$5.3 billion, of which, approximately \$4.4 billion consisted of the Accounts' assets and the remainder the UCITS Funds' assets.<sup>1</sup>

## 5 – FEES AND COMPENSATION

City Financial charges each of the Funds an annual management fee ("Management Fee") which usually ranges from 1% to 2% of assets under management, depending on the terms of the particular fund, calculated on a monthly basis and payable monthly in arrears. Fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the fund. In addition, the Funds may incur certain charges imposed by custodians, brokers, directors, auditors, etc., and other fees and taxes on brokerage accounts and securities transactions - none of which

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<sup>1</sup> RAUM represents a manager's gross assets under management, rather than net assets under management ("AUM") and therefore RAUM will be higher than AUM.

will be receivable by City Financial.

The specific manner in which fees are charged by City Financial is established in each fund's Investment Management Agreement (or Sub-Investment Management Agreement, or Advisory Agreement, as the case may be), and is also detailed in the fund's private placement memorandum.

Neither the Firm nor any of its employees receives compensation for the sale of securities or other investment products.

## **6 – PERFORMANCE-BASED FEES AND SIDE BY SIDE MANAGEMENT**

City Financial will charge the Funds an incentive fee or performance allocation (the “Performance Fee”). The Performance Fees range from 10% to 20% of profits made and may be paid quarterly or annually in arrears. These fees are usually subject to a high water mark (“HWM”). Thus, no Performance Fee is owed unless and until losses incurred during a prior period or periods have been recouped, subject to certain adjustments. The Performance Fee relevant to the Funds is disclosed to investors in the funds’ private placement memorandum.

While the Firm believes that performance-based fee arrangements align its interests with the interests of clients who are subject to these fees, performance-based compensation may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, the performance on which performance-based compensation is calculated will include unrealised appreciation and depreciation of investments that may not ultimately be realised. City Financial has adopted policies and procedures that seek to mitigate any such conflicts presented by performance-based fee arrangement and to ensure that all Accounts are treated fairly.

Side letters have been agreed with early and/or significant investors in certain funds. In these circumstances, there is a risk that some investors may be favoured over the others. However, any potentially material terms (which would, for example, give an investor an enhanced ability to decide on whether or not to increase or reduce its investment in the fund) are either built into the private placement memorandum so that all investors benefit, or are specifically disclosed to all investors.

## **7 – TYPES OF CLIENTS**

As City Financial is an adviser to pooled investment vehicles, its clients are considered to be the Funds. US investors in the Funds must be “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act.

As of August 31, 2018, the Firm's Clients were comprised of the following:

#### The Funds

Abrax Merger Arbitrage Fund Ltd (feeder to the Abrax Merger Arbitrage Master Fund Ltd)  
Abrax (US) LP (feeder to the Abrax Merger Arbitrage Master Fund Ltd)  
Akamatsu Fund  
Akamatsu Bonsai Fund  
Cumulus Fund (feeder fund of Cumulus Master Fund) \*  
Cumulus Feeder Fund LP (feeder fund of Cumulus Master Fund) \*  
Cumulus Lower Volatility Fund (feeder fund of Cumulus Master Fund) \*  
The Decca Feeder Fund (feeder fund of the Decca Master Fund)  
The Decca Feeder Fund L.P. (feeder fund of the Decca Master Fund)

\*These funds are in the process of winding up.

#### Other Accounts

<u># of Accounts</u>	<u>Type of Account</u>
2	Unregistered hedge funds
2*	SMA's
9	UCITS Funds

\*The SMA's may follow the same or similar investment strategy as their reference fund.

## **8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Method of Analysis**

City Financial uses a wide range of sources of information and types of analysis, from purely quantitative methods using only price data, to highly qualitative methods using independent analytical work or direct research on the companies or instruments being assessed.

Sources of information include:

- Broker and investment bank research
- Broker sales notes (not research or investment bank related)
- Market data from vendors such as Reuters, Bloomberg and DataStream
- Other independent research houses, and
- Internal analysis and data gathering

Strategies include (but are not limited to):

- Stock picking strategies (with both long and short positions; in equities and corporate and government bonds)
- Themed investment (weather driven; region)
- Fundamental analysis (supply/demand or financial/sectoral)
- Fixed income strategies
- Macro/CTA (commodities, government bonds; credit; Fx; CDS)

The Firm will generally invest, on behalf of the Accounts, in commodities, listed securities and listed derivatives and, to a lesser degree, in unlisted securities and over-the-counter derivatives. Investments in securities may be in both mature and emerging markets, including but not limited to: commodities, futures and options, sovereign and corporate debt, hybrid securities, convertible bonds, long-dated subordinated debt, preference shares, equities, Fx, foreign issuers, warrants and commercial paper.

### **Investment Strategies**

Subject to the investment restrictions and other parameters set out in each fund's private placement memorandum, City Financial makes use of certain investment techniques. These can include:

#### **Short Selling**

For certain accounts, City Financial is permitted, subject to the rules of the local regulator and/or exchange, to sell securities short, in the expectation of covering the short sale with securities acquired in the open market at a price lower than that received from the short sale. The possible losses from short selling are unlimited. This differs from the possible losses that could be incurred from taking long positions in securities, which are limited to the total amount invested. In addition, short selling can cause downward price pressure on a stock and could therefore pose a potential conflict of interest if some client accounts were selling short the same security other client accounts hold long (and vice versa). One fund may be short in a stock in which another fund has a long position. Although this would appear to be a conflict of interest for City Financial, the portfolio of each fund is actually managed separately, using the fund's strategy and limited by the investment restrictions as set out in the fund's prospectus, and the portfolio's adherence to this is monitored daily by the Firm.

#### **Use of Leverage**

In managing certain accounts, City Financial may also use leverage, such as investing monies secured on margin or taking positions in certain types of derivatives that involve leverage. The Firm may also invest client accounts in certain ETFs (exchange-traded funds) that provide leveraged exposure to their underlying indexes. Use of leverage can cause portfolio values to rise and fall faster than if leverage were not used. Use of leverage also involves the risk that securities in an account will have to be liquidated in order to meet margin calls or maintain sufficient asset coverage, at a time when it may not be desirable or advantageous to sell.

#### **Concentrated or Non-Diversified Positions**

Investments in accounts managed by City Financial may be concentrated in certain issuers within the same country, industries, sectors or markets. An adverse economic, business or political development may affect a fund's investment more than if its investments were not so concentrated. Investments may also be focused on the securities of a particular issuer such that the account is relatively non-diversified. Concentration and non-diversification pose increased risk of loss to the extent that the account is more susceptible to adverse events affecting the industry or issuer on which the account is focused.

## **Options Trading**

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation either to purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

### **Risk of Loss**

Although City Financial endeavors to minimize risk, investing in securities involves a risk of loss that investors should be prepared to bear. Investors in the Funds should be aware of the following types of risk considered by City Financial:

#### **Market Risk**

Market risk is the exposure of the fund to movements in net asset value as a result of changes in factors that affect the price of the underlying assets in the fund. While investors should expect market risk that occurs as a result of applying the fund's investment policy to meet its investment objectives, the deployment of derivatives will bring different parameters into the market risk equation. For example, the value of an option will not necessarily move on a one-for-one basis with the underlying security but with the delta of the option. In addition, other external factors that may not affect the underlying security will have a bearing on the value of the derivative such as interest rates, volatility, time to maturity and dividend yield.

#### **Valuation Risk**

The Funds may engage in transactions involving the purchase and sales of commodities or commodity futures, forwards, options, swaps, derivatives or other similar transactions. These instruments may be illiquid and thus difficult to value. Moreover, during periods of limited liquidity and high price volatility, the Portfolio Managers' ability to acquire or dispose of investments at a price and time that is deemed advantageous may be hampered.

Most portfolio positions are in instruments which either are themselves quoted on a recognised investment exchange or are derivatives of such instruments, and are therefore easily valued by the independent third-party Fund Administrator through pricing sources such as Bloomberg etc. OTC instruments will be the subject of contracts with market counterparties, and the value of those instruments will be supported by corroborating documentation from those counterparties.

However, there may be positions for which the Fund Administrator has difficulty obtaining valuations and thus may require fair valuation. The Firm has implemented valuation procedures which detail the process for valuing these securities. The City Financial Valuation Committee ("Valuation Committee") ensures independent valuations and assessments for the fair value of hard to value, stale, illiquid or unquoted securities. Based on inputs, where applicable, from the Administrator, Portfolio Manager, broker quotes (where available), financial statements (if required), the quorum of the Valuation Committee shall provide written valuation determinations which shall be recorded and approved by the Valuation Committee. Such determination is then forwarded to the relevant fund's Board for approval. In addition, on a monthly basis City Financial's Risk Management Committee (the "RMC") meet to review the valuations of these positions that were fair valued and the methodology used to arrive at the stated fair values.

## **Counterparty/Credit Risk**

The Funds' counterparty risk can be broken down into two elements:

- i) the credit risk of the counterparty (i.e. the counterparty to a financial instrument such as a derivative contract may fail to discharge an obligation or commitment that it has entered into with the fund), and
- ii) the requirements on maximum counterparty exposure as laid down in the fund prospectus.

The credit strength of each entity should also be assessed. This will typically be expressed as a rating from an agency such as Standard & Poor's, Moody's or Fitch. The Firm may determine a minimum rating requirement for the counterparty. Should the counterparty rating fall below a certain level, then the derivative can be closed out or suitable collateral demanded from the counterparty to increase the comfort to the fund.

Consideration should also be taken of other assets held by the fund that expose it to non-derivative exposure, to take into account the overall exposure limits to counterparties. The counterparty assessment should also take into consideration any substantial delays in settling collateral or derivative trades and timely submission of documentation, as this increases the potential credit risk on the counterparty (see specific risks covered elsewhere) should one of these risks be realised.

## **Conflicts of Interest**

Portfolio Managers may invest in the funds that they manage. In theory, this represents a conflict of interest and may influence the way that they manage the fund's portfolio; however, external investors would typically view this as an alignment of interests, demonstrating that the Portfolio Managers were prepared to risk their own capital alongside that of the other investors. In any case, the way that Portfolio Managers carry out the strategy and keep within the investment restrictions of the Funds is monitored by City Financial Compliance Department ("Compliance") and is under the ultimate supervision of the Directors of the fund concerned.

Some employees may have other external activities and business interests. This conflict of interest has the potential risk that these individuals may not provide the necessary time and attention to the regulated business of the Firm. City Financial has a policy where all such activities and interests must be disclosed and reported regularly to Compliance who will ensure that these activities are peripheral and take a minimal amount of the individual's time. Strict confidentiality clauses signed by all individuals should ensure that there is no risk that information obtained from their work for the Firm is used in other capacities.

Cumulus Asset Management LLP ("CAM"), who was the Sponsor of the Cumulus Fund, owns part of Electric Kiwi Limited ("EK"), a start-up New Zealand based electricity supply business. EK is a stand-alone business with little management involvement from other members of CAM. Since EK's wholesale requirements change from hour to hour, it hedges its exposures with "shaped" products which are illiquid compared to the electricity futures traded in the Cumulus Fund. The Cumulus Structured Commodities Fund ("CSCF"), of which City Financial is the Investment Manager, was established to provide EK with wholesale electricity price risk management products and therefore allow separation of EK's day-to-day operations from its wholesale risk. Any Conflicts of Interest issues are raised by the Chief Compliance Officer and discussed at the monthly Risk Management Committee (RMC) meeting. At least annually, Conflicts of Interest will be an agenda item for the Board of City Financial Investment Company Limited and the conflicts of interest policy and schedule will be signed off by the Board.

Where arrangements made by City Financial to manage conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of a client will be prevented, City



Financial, before undertaking business for the fund or on their behalf:

- Will clearly disclose, in a durable medium, the general nature and source of the conflict of interest to the client before undertaking business for the client; and
- will provide sufficient detail to enable that particular client to make an informed decision in relation to the service offered.

### **Documentation Risk**

This is the risk that the documentation of the derivative contract does not match what the fund thought it had entered into. Documentation risk is monitored by City Financial Legal Department, with the assistance of, where appropriate, external counsel. The Firm's policy is to have general derivative documentation signed and in place prior to the Portfolio Managers entering into any derivative contract on behalf of the fund concerned. However, it should be noted that most of the ISDA terms are standardized.

Certain points in particular need to be addressed, specifically:

- **Counterparty Exposure**  
Where closing out the position is not practical, alternative arrangements such as suitable collateral requirements or partial cash settlement can be considered.
- **Closing Positions**  
The derivative counterparty must agree that it will unwind the derivative position at the prevailing market price at any time that is required. This might be as a result of when (a) the derivative position no longer meets the investment objectives of the fund, (b) it cannot be considered to be appropriately covered, (c) liquidity is required to meet redemptions, or (d) counterparty exposure is exceeded. For certain funds, due consideration should also be given to the minimum size of partial unwinds of derivative positions to ensure that the fund does not deviate from its stated investment objectives through holding an inappropriate amount of derivative position as investors subscribe for more or divest units in the fund.
- **Pricing**  
Where OTC derivatives are not equivalent in financial effect to one or more derivatives that are priced by an exchange, the documentation should state that the counterparty will supply a price for the derivative as of the dealing time on each dealing date of the fund and a price at any other time that it might be requested. The basis for the price should be specified and this may relate to the unit pricing of the specific fund e.g. bid/offer for two way pricing or mid-market for single priced funds. The source of the third party independent pricing, or at least the requirement for the counterparty to provide a third party source, should also be documented.
- **Collateral**  
As part of this documentation, the parties should also consider whether a Credit Support Annex should be put in place.

### **Key Man Risk**

City Financial may, to a certain extent, rely on certain key personnel to execute the Funds' investment objectives and strategies. Yet the departure of any such key personnel or their inability to fulfil certain duties may adversely impact the management of the Funds. However, for the most part, the portfolio manager teams are comprised of a number of individuals who are experienced in managing similar investments to those in the Portfolio and would be able to take over management of the Portfolio without

risk of unusual losses even if the lead portfolio managers for the Funds became permanently unavailable without notice.

### **Basis Risk**

This risk is important for investors to understand where a fund is relying on assets that do not or may not in the future exactly match the derivative exposure it is taking on (e.g. writing a call option on the FTSE 100 index while holding the underlying stocks to cover the position). The danger is that the composition of stocks or the future prices diverge from the index or underlying instrument. The potential impact is that it may be a breach of the investment policy of the fund or lead to unintended outcomes. City Financial is mindful of this risk.

### **Liquidity Risk**

Liquidity risk arises when the Portfolio Manager is unable to trade an asset because there is no interest in entering into the trade from other market participants. Liquidity risk becomes particularly important when the fund holds or is about to hold an asset, since it may affect its future trading ability.

Liquidity risk also arises when the Portfolio Manager is unable to meet the requirement to provide liquidity for withdrawals, and to meet the fund's liabilities to deliver assets or cash under derivative contracts. City Financial's Oversight Committee monitors this risk to ensure that the former is not unduly affected by the latter. This may also have an impact on the temporary borrowing requirements of the fund that need to be monitored to ensure that limits are not breached.

In order to control liquidity risk, City Financial and the Portfolio Managers employ cash monitoring procedures. Compliance review the daily NAV received from the Administrators and they also receive large deal notifications. Redemption notice periods are also set so that the Portfolio Managers are able to liquidate positions and realize cash in time to meet redemptions requested.

### **Cash Flow Risk**

The Portfolio Managers' remit is to manage the investment of the monies flowing into the fund but must also be mindful of the requirement to provide liquidity for withdrawals and to meet the fund's liabilities to deliver assets or cash under derivative contracts.

### **Regulatory Risk**

Laws and regulations affecting the Firm's business continue to evolve in an unpredictable manner. Moreover, changes in laws and regulations applicable to the Funds may place restrictions on and/or impact the Firm's ability to achieve certain fund objectives.

### **Reputational Risk**

A firm's reputation is one of its most valuable assets. Reputational risk can result in damages to the Firm's reputation, loss of clients, vendors, revenue, and shareholders' value.

## 9 – DISCIPLINARY INFORMATION

As an SEC registered company, City Financial is required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of the Firm or the integrity of its management.

City Financial is the discretionary Investment Manager in relation to certain accounts that, amongst other things, trade on the Chicago Mercantile Exchange (CME). This included trades carried out to rebalance the portfolios of these accounts each month end in order to ensure that as far as possible the accounts trade *pari passu*. CME trades are executed on behalf of the accounts by third party brokers.

Late 2015, the Firm was informed by CME that they had reviewed certain rebalancing trades carried out by City Financial in August 2014. It appeared that the third party brokerage firm had booked these trades incorrectly, in contravention of exchange rules. We understood that the CME was bringing an action relating to these trades against the third party brokerage firm. The CME also believed that the two accounts managed by City Financial had some liability in respect of this error. Despite our position that the booking error lay with the brokerage firm, as neither City Financial nor the accounts concerned had instructed the trades to be booked in the way that they were, the CME disagreed. Accordingly, in the interests of maintaining good relations with the CME, we proposed a payment of US\$15,000.

This was accepted at a hearing held on May 24, 2016, when a Panel of the NYMEX Business Conduct Committee found that City Financial and the two accounts had entered into a non bona fide transaction, by failing to evidence an associated related position, in violation of Exchange Rule 538.C (Exchange for Related Positions – Related Positions).

We would like to stress that, as a result of the rebalancing trades being booked as they were:

- neither City Financial nor the accounts nor any underlying investor made any gain or loss;
- there was no impact on the market or any market abuse.

City Financial, not the accounts concerned, have borne the full costs of settlement and is the sole named party in the settlement notice.

On 28 March, 2018 the Firm agreed a fine with the CME of \$30,000 due to a position limit violation due to a broker not following the standard order allocation. As a result, of the mistake, the Firm exceeded a CME position limit for 1 day, leading to the fine.

## 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### Affiliations

City Financial is the parent company to the following subsidiaries: CFIC Cayman Limited (“CFIC Cayman”); CFIC Cayman II Limited (“CFIC Cayman II”); CFIC Cayman III Limited (“CFIC Cayman III”); CFIC Cayman IV Limited (“CFIC Cayman IV”); CFIC Cayman V Limited (“CFIC Cayman V”) (collectively, the “Cayman Entities”); City Financial Investment Company (Hong Kong) Limited (“CFIC-HK”); CFIC (US) Inc. (“CFIC-US”); and City Financial Investment Company Pte Limited (“CF-SG”).

CFIC Cayman is the General Partner of Cumulus Feeder Fund LP. CFIC Cayman II is the General Partner of the Decca Feeder Fund L.P. CFIC Cayman III is the General Partner of a fund managed by CFIC-HK. CFIC Cayman IV is the General Partner of a fund managed by CFIC-SG. CFIC Cayman V will be the General Partner of a new fund to be managed by CF-HK.

CFIC-HK was formed in December 2013 and is registered with the Hong Kong Securities and Futures

Commission, as well as the CFTC and NFA. CFIC-HK acts as the investment manager to a fund that launched in March 2014.

CFIC-US was incorporated in Delaware in March 2014 and is registered with the SEC, as well as the CFTC/NFA. CFIC-US provides sub-advisory services, principally concerning US investments, to the Cumulus Master Fund, on behalf of City Financial. It is also the investment manager to a fund that launched in March 2017.

CFIC-SG was formed in January 2016 and is licensed with the Monetary Authority of Singapore (MAS), as well as the CFTC and NFA. CFIC-SG took over the investment management of a fund in July 2016.

#### Joint Venture Partnerships (“JVP”)

City Financial has a joint venture agreement (“JVA”) with each of the Funds’ Portfolio Management teams (the “PM Teams”). Under the terms of each JVA, the PM Teams second their staff and intellectual property to City Financial for the day-to-day portfolio management of the accounts concerned. The JVA specifies that the fees earned by City Financial, for acting as the regulated investment manager of the accounts, are shared between City Financial and the PM Teams.

It is understood that where individuals from the PM Teams are seconded to City Financial in order to manage the portfolio of the Accounts, those secondees will be members or employees of a JVP, and this is seen as an inherent part of the Firm’s operating structure. Furthermore, it is also understood that as secondees to the City Financial, the individuals concerned will come under the Firm’s compliance supervision.

#### Employee Broker Dealer Affiliation

One of the Firm’s marketing employees is also a registered representative of TGP Securities, Inc. (“TGP”), a registered broker dealer (8-68955). Under FINRA rules TGP has certain regulatory and supervisory obligations and oversight over the activities of this employee. It should be noted that no commissions are paid directly or indirectly to the employee or TGP. However, City Financial pays TGP a fixed fee, annually in advance, for the services it provides to the employee.

#### CCO’s Outside Business Activities

Dallas McGillivray, the Firm’s CCO, is the founder and Group Managing Director of Fleming McGillivray & Co. Limited, a regulatory consulting firm and an unaffiliated entity of City Financial. Mr McGillivray reports to the Chief Executive Officer and has direct access to the Firm’s Board of Directors.

## **11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL ACCOUNT TRADING**

City Financial has adopted a Code of Ethics (the “Code”) that applies to all employees, secondees from the JVP, and any other access person (collectively, “employees”). The Code sets general standards of conduct for the Firm’s employees and imposes specific requirements aimed at preventing, detecting and correcting fraudulent activity, market abuse or activities that would pose a conflict of interest in connection with personal securities transactions. The Code prohibits employees from engaging in conduct commonly known as “insider trading” and restricts their giving and receiving of gifts and hospitality and their ability to accept certain positions with external organizations.

Employees may, from time to time, buy or sell securities for themselves, even if the securities are identical

to those traded in the portfolio of the Accounts. However, these transactions require pre-clearance prior to execution. Additionally, the Code restricts PM Teams from trading ahead of the fund which he or she manages. Personal account trading by employees may only be undertaken in line with City Financial's Personal Account Dealing policy, which is contained in the Firm's Compliance Manual and also further developed in the Code. It is the express policy of City Financial that no employee should place his or her interests ahead of those of the Firm's clients.

In order to monitor compliance of the Firm's personnel with the Code and applicable law, employee are required to provide duplicate copies of their personal account trading contract notes or order memorandum, which are reviewed by Compliance. In addition, employees are required to sign statements acknowledging that they have read, understood and will abide by the terms of the Compliance Manual and the Code, as well as the Firm's Personal Account Dealing, insider trading and money-laundering policies.

City Financial does not, at this time, invest its own capital or share in transactions. However, the Cayman Entities have a nominal interest in the funds which they serve as General Partners. It should also be noted that one of the JVPs has invested its own capital in CSCF, which currently has no other investors.

This is only a summary of the Code. The entire Code will be made available to clients upon request.

## **12 – BROKERAGE PRACTICES**

### **A. Brokerage Partners and Best Execution**

The Funds' investments are generally purchased through brokers, on securities exchanges or directly from the issuer or from an underwriter or market maker for the investments. Securities transactions will be executed by brokers or counterparties selected by City Financial. In placing portfolio transactions and negotiating commission rates, where applicable, City Financial will seek to obtain the best execution for the Clients, taking into account the following factors:

- **Price** – This is the price at which a transaction is executed. Where the price has varied across the transaction the blended average price should be considered.
- **Costs** – This includes explicit external costs such as brokerage, exchange or clearing fees, as well as implicit costs such as spreads and slippage. This should be restricted to costs borne by the client and should not include the Firm's internal costs relating to trading.
- **Speed** – This refers to the amount of time that elapses between the trade order and the successful execution of that trade.
- **Likelihood of execution and settlement** – This refers to Firm's estimation of the probability that the trade order will be successfully completed either in whole or in part.
- **Size** – For large orders or illiquid instruments only a partial fill may be received and this may vary between brokers and venues. Where the whole trade order is unlikely to be filled, the size of the potential fill will increase in importance.
- **Nature of the order and any other relevant considerations** – This is a broad category that covers any other factor not listed in the regulations that firms may wish to prioritise in order to achieve the best result for its clients. Examples of this may be the need to maintain anonymity and/or reduce the market impact of the trade, the need to minimise or diversify counterparty exposure, and the need to meet regulatory requirements such as trade publication and reporting orders for execution in accordance with the Firm's best execution policy, procedures and criteria.

City Financial places orders for execution in accordance with its best execution policy, procedures and criteria (see below). The Firm's best execution policy seeks to achieve the most favourable net results for clients on each transaction. City Financial believes that the key components to achieve the most favourable net results are transaction specific and dependent upon the broker's ability to accommodate special transaction needs. Trades may involve specialized services on the part of the broker-dealer involved and entail higher commissions than would be the case with other trades requiring more routine services, and therefore may not always be executed at the lowest available price or commission.

City Financial only utilises brokers that have been approved internally. City Financial uses the following factors when selecting and evaluating brokers and counterparties: financial standing, regulatory status and best execution policy. City Financial also requires evidence that they are regulated by their national regulator, confirmation that they will classify City Financial as a professional client, a copy of their best execution and conflict of interest policies, and a copy of their latest audited financial statements.

In certain cases, the Firm may occasionally execute transactions between different portfolios managed by the same portfolio manager within the Firm. City Financial only conducts cross trades in the market at typically the average of the highest bid and the lowest current offer determined on a basis of quotes from multiple brokers. In any case, no direct crosses are carried out between funds unless specifically approved by the Boards of those funds.

Separately, City Financial conducts routine rebalancing exercises, e.g. at the beginning of the month to reflect changes in the assets under management ("AUM") of the relevant funds as a result of subscriptions/redemptions. Generally, these trades are carried out using the previous day's closing prices, through the relevant broker outside market trading hours in order to minimise transaction charges and to ensure that neither fund is favoured over the other

## **B. Soft Dollars – Payment for Research**

Soft dollars refer to the practice of using a portion of the brokerage commissions generated when executing client transactions to acquire investment research and/or brokerage services from broker-dealers and other vendors. As permitted by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), an adviser may cause a client to pay a broker-dealer which provides "brokerage and research services" to the adviser an amount of commission for effecting a securities transaction for a client in excess of the commission which another broker-dealer would have charged for effecting that transaction, provided the adviser determines in good faith that the greater commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker-dealer viewed in terms of either a particular transaction or the adviser's respective overall responsibilities to clients.

Since January 3, 2018, the European Union's Markets in Financial Instruments Directive ("MiFID") required advisers that are regulated under MiFID (such as City Financial) to pay for research services separately from trade execution services, either through their own resources or a research payment account ("RPA") funded by a specific charge to a client for research applicable to that account. MiFID restricts the use of soft dollars by affected advisers.

With respect to the Funds, the Firm use broker-dealers who may, in addition to routine order execution, facilitate the provision of research to the Firm either from the broker itself or a third party research provider. The cost of such research is allocated by Firm on an individual basis among the Funds (each such allocation a "research charge"). The research charge is based upon an agreed amount budgeted for research for each year with each respective Fund.

City Financial administers the RPA on behalf of the Funds. On a quarterly basis, City Financial bills each Fund for research utilised via the RPA. The purchase of research will be subject to appropriate controls and oversight by Firm designed to ensure that the research budget is managed and used in the interests of the Funds and will include regularly assessing the quality of the research purchased.

On an annual basis the Firm will provide the Funds' board of directors with information on the actual costs incurred for such research. Up-to-date information on the research budget and research charge can also be obtained from the Firm. City Financial will also provide clients with disclosure in relation to such arrangements upon request in accordance with the FCA Rules.

### **C. Aggregate Trade Allocations**

A fund may follow some or all of the same strategy as another fund or managed account. This conflict of interest has a potential risk that one fund may be favoured at the expense of another fund regarding the trade allocation. Because of this, City Financial has a clear allocation policy, with trades apportioned based on pre-agreed splits (normally *pari passu* with the AUM of the funds).

City Financial will execute transactions on an aggregated basis when it believes this will allow it to obtain best execution and negotiate more favourable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. When orders are aggregated, the Funds be treated in a fair and equitable manner, and the prices obtained may be averaged so that the Funds involved in the transaction pay or receive the same average price. This may result in one fund obtaining on some occasions a more favourable transaction price and others a less favourable transaction price than had that fund's order been effected separately.

City Financial will not aggregate orders unless aggregation is consistent with the Firm's duty to obtain best execution. No account will be favoured over any other client; however, a variety of factors will determine whether or not a particular fund may or may not be included in a particular aggregated transaction. These factors include, but are not limited to: investment objectives and strategies, position weightings, cash availability and risk tolerance. Because of these factors, there may be differences in portfolio allocations from a strict *pro rata* basis even between client accounts following the same strategy.

When City Financial determines that order aggregation is in the best interest of its clients, the following guidelines generally are followed for all portfolios which are participating in the execution under the same trading circumstances (e.g., price limits and time of entry). Aggregated orders filled in their entirety or partially will be allocated within strategy among the participating accounts *pro-rata* by account market value. In the event of a *de minimis* allocation for a partial allocation, the trader has the authority to determine an appropriate allocation methodology.

### **D. Trading Errors**

Consistent with City Financial's fiduciary duties, the Firm's policy is to exercise care in making and implementing investment decisions for client accounts. To the extent trading errors occur, the Firm seeks to ensure that clients' best interests are served. City Financial's policy is to resolve all trade errors as soon as possible while ensuring the client is not disadvantaged, consistent with the orderly disposition (and/or acquisition) of the securities in question. Actual losses suffered by a client account as a result of a trade error caused by City Financial will generally be reimbursed by City Financial; however, City Financial does not compensate its client funds for lost investment opportunities (e.g., failure to take advantage of investment or market improvements). However, consistent with the investment strategy and trading approach of the portfolio management teams of certain client funds, losses arising as a result of trading errors may be borne by the relevant client fund, to the extent the losses are not primarily attributable to the bad faith, gross negligence, wilful misconduct or fraud of the Firm. Any gains arising



from trading errors will be for the benefit of the relevant client fund.

## **13 – REVIEW OF ACCOUNTS (CLIENT/FUND PORTFOLIOS)**

### **A. Frequency of Reviews**

All accounts managed by City Financial are generally reviewed on a daily basis, by the respective Portfolio Managers, Compliance, City Financial Risk Department (“Risk Department”), City Financial Operations, Fund Accounting and Middle Office (“Middle Office”) departments.

All positions and transactions are reconciled by Middle Office to help to ensure consistency with the Firm’s investment processes and conformity with the Funds’ objectives and guidelines. Reviews may include an evaluation of account performance relative to certain agreed benchmarks or objectives, while others may include an analysis of current positions and/or asset mix. Middle Office liaise directly with the Funds’ third-party Administrators and brokers to ensure that each side’s books and records agree or can easily be reconciled.

City Financial Portfolio Managers review each client portfolio continuously to determine, among other things, whether it is appropriately positioned and whether investment objectives and policies are being followed. Further oversight is provided daily by Compliance to monitor each portfolio against that fund’s investment restrictions laid out in its prospectus or Private Placement Memorandum, other factors mentioned in the fund’s promotional material, and the rules of the relevant exchange and regulator for each of the markets traded. Ongoing issues will be discussed at the monthly Compliance Committee and escalated to the Firm Board, where appropriate, via a quarterly report.

In addition, the RMC monitors the investment strategy risk and the market risk per fund, as well as the counterparty risk and the operational risk per fund and for the entire Firm on a monthly basis. Issues, including regulatory breaches, are escalated to the PM Team of the fund concerned, the RMC, and the Board of the Fund, as well as being reported where appropriate to the relevant regulator and/or exchange and the Board of City Financial.

### **B. Written Reports**

For a number of funds, the underlying investors in those funds typically receive on a monthly basis:

- i) statements from the fund’s Administrator, which include, among other things, the change in value of their accounts since the last reports that were provided, and
- ii) communications from City Financial in the form of a shareholder newsletter, explaining recent trading activity and the outlook for the fund based on the current state of the markets.

Investors also typically receive on an annual basis audited financial statements from the Funds’ Administrator, as well as certain tax information for preparation of their respective tax returns, including a Schedule K-1 or passive foreign investment company (PFIC) reports for United States persons.

Customised reports may be provided to certain investors on request on a case-by-case basis.

## **14 – CLIENT REFERRALS AND OTHER COMPENSATION**

City Financial may enter into fee sharing arrangements with third party marketers who refer prospective investors to a fund managed by City Financial. Such marketers may be paid a portion of the fees earned by City Financial from the assets relating to the referred investor. Any monies paid to third party marketers, in connection with such referral, are ultimately borne by City Financial.



Third party marketers may have a conflict of interest in advising prospective investors whether to purchase or redeem their shares or interests in a fund, due to the fees paid to those marketers by City Financial. The use of third party marketers may lead to their suggesting unsuitable investors as prospective shareholders in the funds. However, the Funds' third-party Fund Administrators act independently and are responsible for vetting all prospective investors (as part of their KYC and AML procedures) before they are accepted as shareholders in the Funds.

## **15 – CUSTODY (AND CLIENT ASSETS)**

City Financial does not hold Clients' assets and does not maintain physical possession of the monies or securities for any Clients directly or indirectly.

The Funds contract directly with prime brokerage firms and/or commercial banks to serve as custodians of funds' assets pursuant to a separate custody agreement. City Financial receives statements of account holdings and cash from the Funds' custodians. The SMAs receive statements directly from their respective custodians.

## **16 – INVESTMENT DISCRETION**

As a discretionary Investment Manager, City Financial has complete discretion over the investments it makes on behalf of the Funds, subject to the stated guidelines and investment restrictions set forth in the investment management agreement or similar agreement relating to the relevant fund. Compliance with these guidelines and restrictions is monitored by Compliance and the RMC, who will report any breaches to the Portfolio Managers and, where appropriate, to the Board of the fund concerned. Subject to a fund's specified investment objectives and guidelines, City Financial determines which securities are bought or sold, the total amount of securities to be bought or sold, the broker or dealer through which the securities are to be bought or sold and the commission rates to be paid. In exercising its investment discretion, City Financial is guided by the investment policies and guidelines that are established at the inception of the adviser-fund relationship in the investment management agreement (as amended from time to time). The guidelines cover matters such as the types and amounts of securities that will comprise the portfolio.

## **17 – VOTING CLIENT SECURITIES (PROXY VOTING FOR CLIENT FUNDS)**

City Financial's policy on proxy voting is to base voting on the investment objectives and approach of the Funds, as interpreted by the Portfolio Managers, because the strategy of some funds may be more interventionist than others. City Financial has adopted policies and procedures for voting of such proxies. Where City Financial is asked to carry out proxy voting under its own policies and procedures, the Firm takes steps to ensure that proxy voting is carried out relating to securities held in the funds' accounts. If City Financial votes on this basis, it would do so in the best interest of the fund concerned. As an alternative to giving City Financial discretion to vote proxies, a SMA may provide its own written proxy voting guidelines or its own policies, procedures or directions regarding proxy voting. Such guidelines or directions must be in writing and delivered to City Financial sufficiently in advance to allow the Firm to vote as directed.

## **18 – FINANCIAL INFORMATION**

City Financial does not have any adverse financial information to disclose.