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CRD No.: 171519**

**Brochure / Form ADV 2A**

## **1 – INTRODUCTION**

CFIC (US) Inc. (“CFIC” or the “Firm”) 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 CFIC. If you have any questions about the contents of this brochure please contact our Compliance Department 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 with the SEC does not imply that CFIC or its associates have attained a certain level of skill or training.

This brochure provides information for the Clients (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 clients that are not US Persons.

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

## **2 – MATERIAL CHANGES**

Although not material, the following item has been amended since our last Form ADV Part 2A (“Form ADV 2”) is dated March 29, 2018. Other minor changes to better clarify certain information were also made to Form ADV 2.

Item 10 - The Firm’s Chief Compliance Officer (“CCO”) is the founder and Group Managing Director of Fleming McGillivray & Co. Limited, a regulatory consulting firm.

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#### **4 – ADVISORY BUSINESS**

CFIC was incorporated in the state of Delaware on March 26, 2014. CFIC is a wholly owned subsidiary of City Financial Investment Company Limited (“City Financial”), a United Kingdom based investment manager. City Financial is authorised and regulated by the UK Financial Conduct Authority (“FCA”), and is registered with the SEC, CFTC and NFA.

CFIC provides investment management services to three pooled investment vehicles (the “Shaolin Funds”) forming a master/feeder structure. The Shaolin Funds include investors from the United States and globally. The Shaolin Funds are 3(c)(7) funds and are therefore exempt from registration as an Investment Company under the Investment Company Act of 1940 (the “Investment Company Act”), as amended. CFIC also provides investment advisory services to a separately managed account (“SMA”) that follows the same investment strategy as the Shaolin Funds.

The portfolio management team for the Shaolin Funds (the “PM Team”) utilizes an opportunistic, value strategy that takes advantage of market inefficiencies across the capital structure. The Firm tailors its investment advisory services in accordance to the Shaolin Funds’ investment strategy, as disclosed in the relevant private placement memoranda, and the SMA’s investment management agreement. The Shaolin Funds and the SMA (collectively, the “Clients”) deal in varying asset classes, geographies and strategies.

City Financial Compliance Department (“Compliance”) oversees all compliance and regulatory related activities, including reporting, of CFIC.

CFIC does not participate in any wrap fee programs.

As of May 31, 2018, CFIC’s regulatory assets under management (“RAUM”) were approximately \$824 million of which approximately US\$566 million were in the SMA.<sup>1</sup>

#### **5 – FEES AND COMPENSATION**

CFIC charges the Shaolin Funds an annual Management Fee ranging from 1% to 1.5% (depending on the Class) of net assets value, which is calculated and payable monthly in arrears.

In addition, the Clients 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 will be receivable by CFIC.

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

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

CFIC charges the Shaolin Funds, an incentive fee or performance allocation (the “Performance Fee”). Any loss incurred by the Shaolin Funds are carried forward so that no Performance Fee is owed unless and until losses incurred during a prior period or periods have been recouped, subject to certain adjustments (also referred to as a “high water mark provision” (“HWM”)).

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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.

While CFIC believe that performance-based fee arrangements align their interests with the interests of the Shaolin Funds, 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 unrealized appreciation and depreciation of investments that may not ultimately be realized. CFIC have adopted policies and procedures that seek to mitigate any such conflicts presented by performance-based fee arrangement and to ensure that all Clients are treated fairly.

## **7 – TYPES OF CLIENTS**

CFIC provides advisory services to pooled investment vehicles and a SMA.

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

### **Method of Analysis**

CFIC uses a wide range of sources of information and types of analysis to support its fundamental modelling of price from supply and demand in each of the markets traded.

Sources of information include:

- Reports from third party researchers
- Internal analysis and data gathering
- Investment banks and broker-dealers
- Specialized research boutiques
- Market price data from vendors such as Bloomberg

Strategies include (but are not limited to):

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

More detail is provided in the promotional material of the individual fund, which can be provided to qualified investors on request.

The Firm will generally invest, on behalf of the Clients in listed securities and listed derivatives and 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 and in the SMA's investment management agreement, CFIC makes use of certain investment strategies and/or techniques. These can include:

## **Short Selling**

For certain accounts, CFIC 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).

## **Use of Leverage**

In managing certain accounts, CFIC 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 CFIC 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 CFIC endeavours to minimize risk, investing in securities involves a risk of loss that investors should be prepared to bear. Clients should be aware of the following types of risk considered by CFIC:

### **Market Risk**

Market risk is the exposure of a 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 accounts 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. City Financial Valuation Committee (the "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 fund's 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 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**

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 a client 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**

The PM Team 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 portfolios; 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 Shaolin Funds is monitored by City Financial and is under the ultimate supervision of the Shaolin Funds' Board of Directors.

Some employees may have other external activities and business interests. Such a 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. CFIC 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.

## **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. City Financial 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. Consideration is also 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 have put in place a Credit Support Annex should be put in place.

## **Key Man Risk**

CFIC may rely on certain key personnel to execute the Clients' investment objectives and strategies. The departure of any such key personnel or their inability to fulfil certain duties may adversely impact the management of the Clients. However, for the most part, the PM Team is comprised of at least one individual who is experienced in managing similar investments to those in the Clients' portfolio and would be able to take over management of those portfolios without risk of unusual losses even if the lead portfolio manager for the Clients 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. CFIC 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 accounts hold 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 Investment 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.

## **Cash Flow Risk**

The Portfolio Managers' remit is to manage the investment of the monies flowing into the Clients' accounts but must also be mindful of the requirement to provide liquidity for withdrawals and to meet the Clients' liabilities to deliver assets or cash under derivative contracts. However, in practice the Clients have very high levels of unencumbered cash and this risk is small.

## **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 Clients may place restrictions on and/or impact the Firm's ability to achieve certain 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**

No events have transpired applicable to this item.

## **10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### Affiliations

CFIC has entered into a co-CPO relationship with TigerStyle LLC (“TigerStyle”), which acts as the General Partner to one of the Shaolin Funds and sponsor to the remaining Shaolin Funds. TigerStyle is owned by David Puritz and Michael Jester who are employees of CFIC.

CFIC is the managing member of DragonStyle LLC, a limited liability company which is jointly owned by CFIC and TigerStyle.

City Financial is an investment manager and is the parent company of CFIC. City Financial and CFIC have entered into an investment management delegation agreement whereby the management of the European and Asian strategy of the Shaolin Funds is delegated to City Financial.

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

The Cayman Entities act as the General Partner to certain investment pools managed by City Financial, CFIC-HK and CFIC-SG.

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 two hedge funds and a SAM.

CFIC-NZ was incorporated in Auckland in July 2014. CFIC-NZ provides sub-advisory services to a hedge fund, on behalf of City Financial.

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.

City Financial has entered into a Participating Affiliate arrangement with CFIC, CFIC-NZ and CFIC-SA. As a result, employees of CFIC and CFIC-NZ have been deemed to be Associated Persons of City Financial, as defined by Section 202(a)(17) of the Advisers Act.

### 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 Chief Executive Officer of City Financial and has direct access to its Board of Directors. Apart from CFIC, City Financial and its subsidiaries, Mr McGillivray does not serve as CCO to any other entity.

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

CFIC has adopted a Code of Ethics (the “Code”) that sets general standards of conduct for CFIC’s personnel 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 Client accounts. However, these transactions require pre-clearance prior to execution. Additionally, the Code restricts the PM Team from trading ahead of the Clients. Personal account trading by the employee may only be undertaken in line with the City Financial Personal Account Dealing policy as set out in the Code. It is the express policy of City Financial and CFIC that no employee should place his or her interests ahead of those of the Clients.

In order to monitor compliance of CFIC’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.

Compliance maintains compliance oversight over CFIC. As such, all personnel of CFIC are subject to City Financial policies and procedures including, but not limited to, confidentiality, outside business activities, insider trading and anti-money laundering.

CFIC does not invest its own capital or share in transactions.

This is only a summary of CFIC’s Code. The entire Code will be made available to Clients upon request.

## **12 – BROKERAGE PRACTICES**

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

The Clients’ investments are generally purchased through brokers, on securities exchanges or from a market maker for the investments. Securities transactions will be executed by brokers or counterparties selected by CFIC. In placing portfolio transactions and negotiating commission rates, where applicable, CFIC 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 CFIC orders for execution in accordance with City Financial’s best execution policy, procedures and criteria.

The best execution policy seeks to achieve the most favourable net results for clients on each transaction. CFIC believes that the key components to achieve the most favourable net results are transaction specific and dependent upon the below factors:

- The characteristic of the client – For example whether they have been classified as retail or professional and whether they are a natural person, institutional investor or a fund. The level of sophistication, trading frequency and size of portfolio may also be relevant;
- The characteristic of the client order – Factors such as the type of financial instrument, size and urgency of the order are likely to be relevant here. In addition, if the trade is a securities financing transaction then this is likely to require special treatment. In some cases, the client order may also come with specific instructions from the client.
- The characteristics of the financial instrument – Intrinsic differences in the behaviour and attributes of different financial instruments mean that they will need to be treated differently. Market conditions should also be considered, such as whether there is liquidity at the size of order being contemplated, and whether there is significant volatility in the market;
- The characteristics of the execution venues – Relevant considerations here might be the reputation and reliability of the venue, whether the order will be subject to pre- and post-trade transparency, and the types of counterparty that the order is likely to be executed against (for example, whether the order is likely to be executed against high frequency trading firms.)

CFIC only utilizes brokers that have been approved by City Financial. 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, CFIC 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**

CFIC may pay a broker a commission in excess of that which another broker may have charged for effecting that transaction. These payments are commonly referred to as "soft dollars" and are the subject of Commission Sharing Agreements between CFIC and certain brokers for trades carried out for specific funds, subject to a strict policy in line with SEC rules (see below) that ensures such commissions are used solely for the enhancement of investment research to the benefit of those funds.

This use of soft dollars to pay for certain research products or services is within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934. Products or services received from brokers as a result of clients' transactions may be used by a fund's Portfolio Manager in servicing other accounts. CFIC may use soft dollars to purchase broker and third-party research that addresses both economic trends and analyses specific markets, sectors and issuers.

In selecting a broker providing research or brokerage services to execute client transactions, CFIC will make a good faith determination that the amount of the commission charged is reasonable in relation to the value of the research and brokerage services received, viewed either in terms of the specific transaction or the Firm's overall responsibility to the accounts over which it exercises investment discretion. CFIC may choose on a case-by-case basis to place a trade with a particular broker when, for example, a research analyst at that broker has provided valuable perspective or advice regarding a specific company or security or its trading market. In order to have continued access to that type of perspective and advice, the Firm may develop relationships with brokers who have research and analytical expertise relevant to the needs of CFIC and its clients.

CFIC does not have any soft dollar arrangements at present. 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. As a result, research provided for the European and Asian strategy of the Shaolin Funds is paid for via a RPA. The research charge is based upon an agreed amount budgeted for research for each year with the Shaolin Funds.

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

On an annual basis City Financial will provide the Shaolin Funds 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 City Financial. City Financial will also provide the Shaolin Funds 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, CFIC has a clear allocation policy, with trades apportioned based on pre-agreed splits (generally *pari passu* with the AUM of the funds concerned).

CFIC 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 will be treated in a fair and equitable manner, and the prices obtained will 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 affected separately.

CFIC 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 the SMA and the Shaolin Funds.

When CFIC 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 the 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 CFIC's fiduciary duties, CFIC's policy is to exercise care in making and implementing investment decisions for client accounts. To the extent trading errors occur, CFIC seeks to ensure that clients' best interests are served. CFIC's policy is to resolve all trading 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 trading error caused by CFIC's gross negligence will be reimbursed by CFIC. Any gains arising from trading errors will be for the benefit of the relevant client.

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

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

The portfolios are generally reviewed on a daily basis by the PM Team, City Financial Risk Department ("Risk"), and CFIC and City Financial Fund Accounting, Operations and Middle Office departments (Operations and Middle Office collectively, the "Internal Teams").

All positions and transactions are reconciled by the Internal Teams to help ensure consistency with the investment processes and in conformity with client objectives and guidelines. Reviews may include an evaluation of account performance relative to certain agreed objectives, while others may include an analysis of current positions and/or asset mix. Fund Accounting and the Internal Teams liaise

directly with the Administrator and brokers to ensure that each side's books and records agree or can easily be reconciled.

In addition, the PM Team continuously determine, among other things, whether the portfolio is appropriately positioned and whether investment objectives and policies are being followed. Further oversight is provided daily by Compliance to monitor each portfolio against Clients' investment restrictions laid out in the private placement memorandum/investment management agreement, other factors mentioned in promotional materials, and the rules of the relevant exchange and regulator for each of the markets traded.

The RMC monitors the Clients' overall investment strategy risk and market risk, as well as the counterparty risk and the operational risk of Clients and of CFIC. Issues, including regulatory breaches, are escalated to the portfolio managers, the RMC, and if necessary, to the Board of the Funds, the SMA, as well as being reported, where appropriate, to the relevant regulator and/or exchange and the Boards of CFIC and 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 Administrator, which include, among other things, the change in value of their accounts since the last reports that were provided, and
- ii) communications from CFIC or 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 Fund 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, either directly or via City Financial, on request on a case-by-case basis.

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

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

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 CFIC. The use of third party marketers may lead to their suggesting unsuitable investors as prospective shareholders in the funds. However, the Funds' 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)**

CFIC does not hold Clients' assets or maintain physical possession of the monies or securities directly or indirectly.

The Shaolin Funds contract directly with prime brokerage firms and/or commercial banks to serve as custodians of funds' assets pursuant to a separate custody agreement. CFIC receives statements of account holdings and cash from the custodian(s) of the Shaolin Funds. The SMA receives statements directly from its custodian.

## **16 – INVESTMENT DISCRETION**

As a discretionary investment manager, CFIC has complete discretion over the investments it makes on behalf of the Clients, 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 Risk, who will report any breaches to the portfolio managers and, where appropriate, to the Board of the fund concerned. Subject to the Clients' specified investment objectives and guidelines, CFIC 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, CFIC is guided by the investment policies and guidelines that are established at the inception of the adviser-client relationship in the investment management agreement (and 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)**

CFIC's policy on proxy voting is to base voting on the investment objectives and approach of the Clients, as interpreted by the portfolio managers, because the strategy of some Clients may be more interventionist than others. CFIC has adopted policies and procedures for voting of such proxies. Where CFIC 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 CFIC votes on this basis, it would do so in the best interest of the fund concerned. As an alternative to giving CFIC 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 CFIC sufficiently in advance to allow the Firm to vote as directed.

## **18 – FINANCIAL INFORMATION**

CFIC does not have any adverse financial information to disclose.