

## **Worm Capital, LLC**

1298 Prospect St. Ste. 1G  
La Jolla, CA 92037  
(858) 247-5217

[www.WormCapital.com](http://www.WormCapital.com)

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

April 16, 2018

This brochure provides information about the qualifications and business practices of Worm Capital, LLC ( “Worm Capital”). If you have any questions about the contents of this brochure, please contact Zachary Lash at (858) 247-5217. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Worm Capital is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view information on this website by searching Worm Capital’s name or its CRD number (284183). Worm is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## ITEM 2 – MATERIAL CHANGES

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This Brochure, dated April 16, 2018, replaces the March 29, 2018 version. It contains information about our business practices as well as a description of potential conflicts of interest relating to our advisory business which could affect your account with Worm Capital. This information is being provided in accordance with Rule 204-3 of the Investment Advisers Act of 1940, which required a registered investment adviser to provide a written disclosure statement upon entering into an advisory relationship.

### **Material Changes Since the Last Update**

- Item 4 – Assets Under Management
- Item 4 – Advisory Business
- Item 7 – Types of Clients
- Item 14 – Client Referrals and Compensation

### **Full Brochure Available**

Worm Capital will provide a summary of material changes to this and subsequent Brochures within 120 days of the close of Worm Capital's fiscal year and may provide other ongoing disclosure updates, as necessary. Currently, Worm Capital's Brochure may be requested by contacting Zachary Lash, Chief Compliance Officer, at (858) 247-5217 or by e-mail at [zlash@wormcapital.com](mailto:zlash@wormcapital.com). Worm Capital will provide a copy of the current Brochure at any time without charge.

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## **ITEM 4 – ADVISORY BUSINESS**

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Worm Capital, LLC (“Worm Capital”, or the “Firm”), is a limited liability company that was formed in April 2016 in the state of California. It is owned by Arne Alsin.

### **Overview**

Worm Capital will provide investment advisory and management services: (1) as a discretionary investment adviser to individuals, high-net-worth individuals, trusts, estates, charitable organizations, pension and profit sharing plans, and other business entities; or (2) as a discretionary investment adviser to private pooled investment vehicles organized as domestic limited partnerships. These services are described generally below and in greater detail in the relevant advisory agreement and/or offering documents of the Private Funds. Worm Capital aims to manage the Private Funds (as defined below) and Separately Managed Accounts (collectively, “Clients”) side by side. The Firm will be granted discretion and authority to manage Clients by means of a limited power of attorney. The Firm may invest in securities that are suitable for Clients based upon a review of their objectives and risk tolerance.

### **Separately Managed Accounts**

Worm Capital provides investment advisory services to separately managed accounts (“SMAs”). Prior to providing such services, Worm Capital requires each Client to enter into a written agreement that sets forth the terms and conditions under which Worm Capital will render its services and make investment decisions on behalf of the Client (the “Advisory Agreement”).

The investment objective and goal of the SMAs is capital appreciation. Portfolios are generally composed of publically traded equities. Worm Capital works with Clients to understand their risk tolerance and goals to ensure that the account is suitable for their circumstance. Portfolios may vary with regard to the number of holdings due to each investor’s goals, risk tolerance, and circumstances.

SMA Clients may impose restrictions on investing in certain securities or types of securities in accordance with their values or beliefs. Such requests must be made in writing in the Advisory Agreement and signed by the Client and Worm Capital. Clients should inform Worm Capital if their investment objectives change after the Advisory Agreement is executed.

### **Private Funds**

Worm Capital serves as the investment adviser to The Worm Capital Fund, LP (“Worm Capital Fund”), a Delaware Limited Partnership with segregated Series (each, a “Private Fund” and collectively, the “Private Funds”). Worm Capital Fund has four Series, with Series C and D being exempt from registration as an investment company under Section 3(c)(7) of the Investment Company Act of 1940, as amended (“Company Act”) and Series A and B being exempt from registration as an investment company under Section 3(c)(1) of the Investment Company Act of 1940, as amended (“Company Act”). The Firm tailors its investment advisory services for a Private Fund to the Private Fund’s overall investment program, and not to the needs of the individual limited partners.

The advisory services Worm Capital provides to the Private Funds are governed by the relevant Private Fund documents and the Advisory Agreement. Generally, the Private Funds invest in a concentrated portfolio of equities (both long and short) and options that Worm Capital determines to be mispriced. This Brochure should not be considered an offering document for any of the Private Funds for which Worm

Capital provides investment advisory services and investors should refer to the respective Private Fund offering memorandum or organizational documents for a complete description of the relevant Private Fund, including its strategies, risks, conflicts of interest, fees and expenses. Accordingly, investors should consider whether the Private Fund meets their investment objectives and risk tolerance prior to investing.

Series C and D are available only to persons who are “accredited investors” under the Securities Act of 1933, and “qualified purchasers” under the Investment Company Act of 1940, as amended. Series A and B are available only to persons who are “accredited investors” under the Securities Act of 1933. These Private Funds are not made available to the general public and are not registered investment companies.

### **Investment Advisory Agreements**

Worm Capital’s Advisory Agreements contain an authorization by which Clients grant the Firm discretion to make purchases and sales for their accounts without requiring the Firm to obtain their consent or approval prior to each transaction, to select the types and amounts of securities that are bought or sold for their accounts, and the broker or dealer used to affect such transactions. As noted above, certain Clients may specify their investment objectives and guidelines, direct brokerage, select their portfolio strategy and impose certain restrictions or investment parameters.

Either Worm Capital or the Client can terminate the agreement upon receipt of written notice to the other party. Changes to the agreement must be acknowledge in writing by both parties. Additionally, the Client has the right to terminate the contract without penalty within five (5) business days after entering into the contract. In the event that an advisory contract is terminated prior to the conclusion of a billing period, Worm Capital will bill the account pro rata based on date of termination.

### **Wrap Fee Programs**

Worm does not participate in, nor is it a sponsor of, any Wrap Fee Programs. Wrap Fee Programs are arrangements between broker-dealers, investment advisers, banks and other financial institutions and affiliated and unaffiliated investment advisers through which the clients of such firms receive discretionary investment advisory, execution, clearing and custodial services in a “bundled” form. In exchange for these “bundled” services, the clients pay an all-inclusive (or “wrap”) fee determined as a percentage of the assets held in the wrap account.

### **Assets Under Management**

The total amount of clients’ assets managed by Advisor was \$119,017,521 as of February 28, 2018. Of that total, \$119,017,521 were assets managed on a discretionary basis and \$0 were assets managed on a non-discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

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### **Separately Managed Account Fees**

For SMAs in the Equity Growth Strategy, Worm Capital generally charges an annual management fee of no more than 2.0% *per annum* of Client assets under management, depending upon the Client’s investment restrictions and the size of the account, among other factors. All fees are subject to negotiation. The final fee schedule is attached as an exhibit to each Client’s Advisory Agreement. Fees are paid quarterly in

arrears, with payments deducted from Client accounts by the custodian unless an alternate form of payment is agreed upon between the Client and Worm Capital. The Client will provide written authorization permitting the fees to be paid directly from the account. The fee is determined by taking the annual percentage rate charged, divided by four, multiplied by the average daily market value of the account for the quarter. The market value is the sum of the values of all assets in the account. The value is dependent on the custodian's valuation.

Worm Capital fees are generally paid from the Client's account by the custodian when an invoice is submitted to them by Worm Capital. The invoice submitted shows the amount of fees to be taken out of each account. Additionally, Worm Capital will supply the Client with an invoice containing the fee formula, the time period used to calculate the fees, and the dollar amount of assets used to calculate the fees. If there is insufficient cash in the Client's account to pay fees due, an equal balance of securities in the portfolio may be sold to pay the Firm's fee. Worm Capital fees are paid quarterly in arrears, with payments deducted from the Client's account.

Lower fees for comparable services may be available from other sources. In addition to Worm Capital's fees, there may be custodial, mutual fund or similar third-party management fees and charges. Clients are advised to carefully review their account statements to ensure the fees are accurate.

### **Private Fund Fees**

As described below and in the offering documents of the Private Funds, Worm Capital receives a management fee for the advisory services it provides to the Private Funds. The management fee is generally charged in arrears on a quarterly basis. For persons who are "accredited investors", as defined in The Securities Act of 1933, and "qualified clients" or "qualified purchasers", as defined in the Investment Company Act of 1940, the management fee is no more than 0.5% (2.0% per annum) of the closing Capital Account balance of each Limited Partner for each quarter. For persons who are "accredited investors", but are not "qualified purchasers" or "qualified clients", the management fee is no more than 0.625% (2.5% per annum) of the closing Capital Account balance of each Limited Partner for each quarter. Worm Capital pro-rates the management fee to reflect any capital contributions which occur during the quarter. The Capital Account of a Limited Partner making a withdrawal other than the last day of a quarter will be charged a pro rata portion of the management fee immediately prior to such withdrawal based on the number of days elapsed during such quarter and the portion withdrawn from such Capital Account. Private Fund investors are encouraged to consult the offering materials of the relevant Private Fund for more information on the fees paid by the Private Fund.

Worm Capital reserves the right to apply a different management fee to different investors in a Private Fund and to waive any management fee, in whole or in part, for particular investors. The main factors considered in applying different management fees to different investors are the amount of assets invested with Worm Capital and the tenure of the relationship. Worm Capital may launch or manage other Private Funds with higher or lower fees and/or different compensation structures, such as performance-based compensation. Different facts and circumstances, including but not limited to the investor's liquidity profile and prevailing market terms, will be considered in determining applicable fees.

### **Performance-Based Compensation**

Worm Capital is entitled to receive an annual performance-based allocation of no more than 20% of the net capital appreciation allocated to investors in the Funds (the "Limited Partners") during the calendar year

who are “Qualified Clients” as defined under Rule 205-3 of the Investment Advisers Act of 1940. Rule 205-3 issued under the Investment Advisers Act of 1940 defines a Qualified Client as: 1.) A natural person who, or a company that has, at least \$1,000,000 under the management of the investment adviser; or 2.) A natural person who, or a company that, the investment adviser reasonably believes has a net worth (together, in the case of a natural person, with assets jointly held with a spouse) of more than \$2,100,000. The performance allocation or fee, if any, is generally calculated and determined as of December 31st of each year, but may be calculated on other dates, such as upon the termination of the SMA or Private Fund and the final liquidation of its assets. If a Private Fund investor SMA client withdraws or terminates their advisory contract on a date other than December 31st, the performance allocation or fee will be calculated through the date of withdrawal or termination.

### **Additional Fees and Expenses**

Worm Capital’s fees are exclusive of brokerage commissions, custodial fees, transaction fees and other investment related costs and expenses which shall be incurred by the Client. These charges and fees are typically imposed by the broker-dealer or custodian through whom Client account transactions are executed. Please refer to Item 12 for a description of the factors the Firm considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation.

The Private Funds and Separately Managed Accounts may also be subject to administrative, legal, audit and other professional expenses, including certain software and other licensing costs. The Firm does not share in any portion of these commissions, fees and expenses. Please refer to the applicable Private Fund offering memorandum or the Advisory Agreement for a separate account Client for more information.

The Client is responsible to pay all costs and expenses directly unless they have a separate agreement with the Firm to reimburse them for said costs. Certain costs and expenses may be incurred for the benefit of, or be shared by, multiple Clients. Such shared expenses generally will be allocated across the applicable Clients pro rata, or in such other manner as the Firm deems appropriate.

In the event the Client terminates the Advisory Agreement, the Client will be responsible for paying all fees including any custodial administrative fees, account closure fees, mutual fund fees and all trading costs due to the termination. The custodian may assess additional fees for the transfer of illiquid investments. If there is insufficient cash in the account, the liquidation of some securities may be used to pay the fees. Prior to termination of an agreement, Worm Capital can provide a good-faith estimate of these fees.

In addition to Worm Capital’s management fees, there may be custodial, mutual fund or similar third-party management fees and charges. Clients are advised to carefully review their account statements to ensure the fees are accurate.

### **Compensation for Sale of Securities**

Neither Worm Capital nor its supervised persons receive any compensation other than the management fee or performance fee.

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## **ITEM 6 – PERFORMANCE-BASED COMPENSATION AND SIDE-BY-SIDE MANAGEMENT**

Performance based compensation is defined as compensation based on a share of capital gains on or capital appreciation of the assets held in a Client's account. Clients should be aware that there are potential conflicts of interest when Worm Capital manages accounts on a performance compensation basis. For example, the nature of a performance allocation or carried interest that Worm Capital may earn for the management of its Private Funds poses an opportunity for Worm Capital to earn more compensation than under a stand-alone asset based fee. Also, a performance fee arrangement could give Worm Capital an incentive to time transactions in a Client's account based on fee considerations rather than on what is necessarily in the best interest of the Client portfolio. Performance allocations can potentially cause Worm Capital to engage in transactions or strategies which increase the amount of the performance fees but which may not increase overall performance of the Client's account or the Private Fund.

Worm Capital has established policies and procedures to address the various conflicts of interest associated with receiving a performance allocation:

- Worm Capital devotes equal time to managing accounts and Funds subject to a performance compensation schedule and accounts subject to a asset based management fee only.
- Worm Capital has implemented internal policies and procedures designed to comply with applicable state and federal securities law. Procedures are available to Clients upon request.

Please see **Item 5, Fees and Compensation**, for additional information concerning the asset management services provided on a performance fee basis.

“Side-by-Side Management” refers to a situation in which the same adviser manages accounts that are billed based only on a percentage of assets under management and at the same time manages other accounts for which fees are performance-based.

Side-by-side management creates a conflict of interest by creating a potential incentive for Worm Capital to prefer allocating investment opportunities to accounts that pay performance-based compensation to Worm Capital over those accounts that do not pay any performance-based compensation. Worm Capital has undertaken procedures to mitigate any such conflict of interest.

## **ITEM 7 – TYPES OF CLIENTS**

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Worm Capital serves as a discretionary investment adviser to the following types of Clients:

- Individuals, including high-net-worth Individuals
- Pensions and profit sharing plans
- Trusts, estates, and charitable organizations
- Pooled investment vehicles

### **Separately Managed Accounts**

Worm Capital generally only manages separately managed accounts for current clients and are not available to new investors. Worm Capital reserves the right to manage new SMA accounts on a case by case basis.

### **Private Funds**



Worm Capital provides discretionary advice to Private Funds. Specific procedures and restrictions apply to withdrawals from, and terminations of, a Limited Partner's position in a Private Fund, as described in the Private Fund's governing documents. Worm Capital Fund requires a minimum initial investment of \$1,000,000. Minimum redemption amounts and minimum capital account size may apply in the event of a partial withdrawal. A Limited Partner also may be required to redeem all or part of its interest in a Private Fund upon provision of reasonable notice. However, Worm Capital reserves the right, in its sole discretion, to reduce the minimum requirements under certain circumstances. A Private Fund's private offering memorandum or organizational documents includes a complete discussion of the eligibility requirements applicable to that Private Fund, including any applicable lock-up period.

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

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### **Methods of Analysis**

Worm Capital uses multiple sources of information to obtain analysis and strategies. They may include sources such as financial newspapers, financial magazines, research prepared by others, prospectuses, annual reports, and filings with the SEC. Worm Capital invests Client capital mainly in publicly traded securities believed to be selling at a material discount to "fair value" and decisions are mainly guided by fundamental factors (company financial statements, management, analysis of competitors, business value, etc.).

Core to the firm's strategy is the belief that markets are often inefficient (from a pricing perspective) in the short run and efficient in the long run – over time, price reflects value. Within this framework, Worm Capital's competitive advantages are the ability to determine "fair value" for a broad range of businesses, and the ability to have greater patience than the market on average.

Worm Capital may recommend that Clients who are (i) "accredited investors" as defined under Rule 501(a) of Regulation D under the Securities Act, (ii) "qualified purchasers" as defined in Section 2(a)(51)(A) of the Investment Company Act, or both, to invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the Clients' investment objectives.

### **Investment Strategies**

**Equity Growth Strategy:** This strategy seeks long-term capital appreciation by investing in a portfolio of publicly traded equity investments identified as potentially exhibiting superior and sustainable growth compared with the market. There is no restriction on the market capitalization of companies held. This strategy is highly concentrated and will have more stock specific risk and potentially lower correlation with the benchmark than a fully diversified strategy. Subject to account minimums, the strategy may use a portion of its assets (generally no more than 5-8%) to purchase put options on businesses that have been identified as potentially exhibiting inferior growth prospects or that may also be adversely affected by either specific events or by momentum considerations, among other factors. The goal of this is to attempt to minimize equity market volatility, provide efficient portfolio management, and provide potential for additional returns or downside protection. The benchmark is the S&P 500 Total Return Index.

**Long/Short Equity Growth Strategy:** This strategy seeks a positive, above average absolute return over a diverse set of market environments by investing in a concentrated portfolio comprised mainly of long and short equity investments and strategic options positions. There is

no market cap restriction on the businesses targeted. Long positions are equity investments, or derivatives thereof, identified as potentially exhibiting superior and sustainable growth compared with the market. Short positions are equity investments, or derivatives thereof, identified as potentially exhibiting inferior growth prospects or that may also be adversely affected by either specific events or by momentum considerations, among other factors. The goal of the short equity positions and put option positions is to seek to minimize equity market volatility, provide efficient portfolio management along with downside protection, and potential for additional returns. The strategy does not have a long or short bias mandate. Gross and net exposures are variable depending on the assessment of shifting economic and market conditions, particular long and short investing opportunities, and client preferences/mandates. The strategy uses leverage through the shorting of equities, and may use cash proceeds to purchase other investments.

### **Material Risks of Investment Strategies**

There is no guarantee of success of the strategies offered by Worm Capital. The Firm's investment decisions may be adversely affected by general economic and market conditions such as interest rates, availability of credit, inflation rates, changes in laws, and national and international political circumstances. These strategies do not employ limitations on particular sectors, industries, countries, regions or securities. These strategies may not be suitable for all Clients including investors in the Private Funds. Investors in a private partnership, such as those managed by Worm Capital, who are subject to income tax, should be aware that the investment in the partnership may create taxable income or tax liabilities in excess of cash distributions to pay such liabilities.

Investment in these types of securities involves risk and potential loss of capital. Investing in securities involves risk of loss that Clients and private fund investors should be prepared to bear. Investors should also consider the following risks involved with the Firm's investment strategies:

Concentration Risk: While Worm Capital seeks to adequately diversify Client portfolios when necessary, the portfolios may be more heavily invested in certain securities or sectors, which may cause the value of their shares to be especially sensitive to factors and economic risks that affect those particular securities or sectors and may cause the value of the portfolios to fluctuate more widely than a comparative benchmark. Because Worm Capital may invest a greater portion of Client portfolio assets in securities of a single issuer or a limited number of issuers than a more diverse portfolio, Client portfolios may be more susceptible to one or more adverse occurrences affecting one or more of these issuers.

Liquidity Risk: While Worm Capital mostly invests in publicly traded securities, there is always a risk that a given security cannot be traded quickly enough in the market without impacting the market price, or may not be able to be traded at all, due to a variety of factors. Liquidity risk tends to be higher for micro and small cap stocks, emerging markets, low volume markets, and during periods of financial crises.

Counterparty Risk, Financial Difficulties of Institutions and Custodians: Some of the instruments in which Client portfolios may be invested may be traded in markets in which performance will be the responsibility only of the individual counterparty and not of an exchange or clearinghouse. In these cases, the assets will be subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. There is the possibility that institutions, including brokerage firms and banks with whom the Worm Capital does business, or to which securities have been entrusted for custodial purposes, will encounter financial difficulties that may impair the operational capabilities or the positions in the portfolio.

Dependency on Third-Party Information: Worm Capital selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the adviser by the issuers or through sources other than the issuers. Although Worm Capital evaluates all such information and data and typically seeks independent corroboration when Worm Capital considers it is appropriate and reasonably available, Worm Capital is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

Emerging Markets: The securities markets of emerging countries are generally smaller, less developed, less liquid, and more volatile than the securities markets of the U.S. and developed foreign markets. Disclosure and regulatory standards in many respects are less stringent than in the United States and developed foreign markets. Accounting and auditing standards in many markets are different, and sometimes significantly differ from those applicable in the United States or Europe. There is substantially less publicly available information about companies located in emerging markets than there is about companies in other more developed jurisdictions. There also may be a lower level of monitoring and regulation of securities markets in emerging market countries and the activities of investors in such markets and enforcement of existing regulations has been extremely limited.

Hedging: The adviser, on behalf of the portfolio will not, in general, attempt to hedge all market or other risks inherent in their respective portfolio positions, and may hedge certain risks, if at all, only partially. The adviser, on behalf of the portfolio, generally may enter into hedging transactions with the intention of reducing or controlling risk. Even if the adviser is successful in doing so, the cost of hedging may have the effect of reducing returns. Furthermore, it is possible that the adviser's hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses. To the extent that the adviser hedges, its hedges may not be static but rather might need to be continually adjusted based on the adviser's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged.

Leverage: Worm Capital may recommend that the Private Funds or other Clients utilize leverage, which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for investments. Performance may be more volatile when a Private Fund or other Client account employs leverage, because leverage has the potential to magnify the gains or losses in a Client's portfolio. Furthermore, Clients that utilize leverage may not be able to successfully close their leveraged positions on time or at all, which may lead to Client losses.

Management Risk: Assessments about the value and potential appreciation of a particular security may not be right and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or the Firm's fair value approach may fail to produce the intended results.

Market Risk: There is the possibility that the value of equity securities may decline due to daily fluctuations in the securities markets. Stock prices change daily as a result of many factors, including developments affecting the condition of both individual companies and the market in general. The price of a stock may even be affected by factors unrelated to the value or condition of its issuer, such as changes in interest rates, national and international economic and/or political conditions and general equity market conditions. In a declining stock market, prices for all companies may decline regardless of their long-term prospects.

Price fluctuations that may occur at the time of investment of a Client account will impact the performance of the account. Analysis of pricing history or timing of investment in securities is not guaranteed to be accurate and could result in loss due to movements in a security's price and depending upon when action is taken to buy or sell a security.

The profitability of these recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Worm Capital will be able to predict those price movements accurately.

Market Competition: Equity securities selected by Worm Capital for its portfolios typically have significant market competitors and there is no guarantee that a portfolio security will perform better than its competitors and could be subject to risks competing with other companies with regard to product lines, technology advancements and/or management styles of the competing companies.

Non-diversified Risk: Because the portfolios may invest a greater portion of their assets in securities of a single issuer or a limited number of issuers than a portfolio with diversification requirements, they may be more susceptible to a single adverse economic or political occurrence affecting one or more of these issuers.

Option Transactions: The purchase or sale of an option by the portfolio involves the payment or receipt of a premium payment and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying investment for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying investment does not change in price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying investment in excess of the premium payment received.

Portfolio Turnover: There may be instances when portfolios are subject to frequent trading and, thus, the brokerage commission to assets ratio may significantly exceed those of other investment entities. High rates of portfolio turnover could lower performance of Worm Capital portfolios due to these increased costs and may also result in the realization of short-term capital gains.

Short Selling: The portfolio may engage in short selling as part of its general investment strategy. Short selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the portfolio to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. The portfolio's obligations under its short sales will be marked to market daily and collateralized by the portfolio's assets held at the broker, including its cash balance and its long securities positions. Because short sales must be marked to market daily, there may be periods when short sales must be settled prematurely, and a substantial loss would occur. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes the portfolio to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise. Short sales may be utilized to enhance returns and hedge the portfolio. The portfolio anticipates that the frequency of short sales will vary substantially in different periods. There are no prescribed limits to the amount of portfolio assets that may be subject to short sales.

Use of Margin: While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a Financial

Institution, which is secured by a Client's holdings. Under certain circumstances, a lending institution may demand an increase in the underlying collateral. If the Client is unable to provide the additional collateral, the Financial Institution may liquidate account assets to satisfy the Client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a Client's borrowings and the corresponding interest rates may have a significant effect on the profitability and stability of a Client's portfolio.

### **Material Risks of Securities Used in Investment Strategies**

Alternative Investments: Worm Capital believes alternative investments, particularly fundamentally oriented strategies, serve an invaluable role in the portfolio construction process. The managers of these vehicles will have broad discretion in selecting the investments. These funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. There are numerous other risks in investing in these securities. The Client will receive a private placement memorandum and/or other documents explaining such risks.

Convertible Securities: Convertible securities ("Convertibles") are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion and ultimately default risk, as discussed below. Convertibles are also prone to liquidity risk as demand can dry up periodically, and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock.

In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (redeem) the Convertible. An issuer may convert or call a Convertible when it is disadvantageous for the Portfolio, causing the Portfolio to lose an opportunity for gain. For other Convertibles, the Portfolio can choose when to convert the security to common stock or to put (sell) the Convertible back to the issuer.

Because Convertible arbitrage also involves the short sale of underlying common stock, this strategy is also subject to stock-borrow risk, which is the risk that the Portfolio will be unable to sustain the short position in the underlying common shares.

Currency Risk: Investments in securities or other instruments that are valued in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of comparable assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

Derivative Investments: Derivatives are financial contracts whose value depends on, or is derived from, an underlying product, such as the value of a securities index. The risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to the portfolio; (2) before purchasing the derivative, the portfolio will not have the opportunity to observe its performance

under all market conditions; (3) another party to the derivative may fail to comply with the terms of the derivative contract; (4) the derivative may be difficult to purchase or sell; and (5) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

Derivatives markets can be highly volatile. The profitability of investments by the portfolio in the derivatives markets depends on the ability of the general partner to analyze correctly these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of the portfolio may be pledged as collateral in derivatives transactions. Thus, if the portfolio defaults on such an obligation, the counterparty to such transaction may be entitled some or all of the assets of the portfolio as a result of the default.

Equity Risk: Regardless of any one company's particular prospects, a declining stock market may produce a decline in prices for all equity securities (whether or not publicly traded), which could also result in losses. In addition to common stocks, the equity securities in a portfolio may include preferred stocks, convertible preferred stocks, convertible bonds, debt securities and warrants. Like common stocks, the value of these securities may fluctuate in response to many factors, including the activities of the issuer, general market and economic conditions, interest rates and specific industry changes. Convertible securities entitle the holder to receive interest payments or a dividend preference until the security matures, is redeemed, or the conversion feature is exercised. As a result of the conversion feature, the interest rate or dividend preference is usually less than if the securities were non-convertible. Warrants entitle the holder to purchase equity securities at specific prices for a certain period of time. The prices do not necessarily move parallel to the prices of the underlying securities and the warrants have no voting rights, receive no dividends, and have no rights with respect to the assets of the issuer.

Exchange-Traded Products: Worm Capital may invest the assets of a Client's portfolio in (or sell short) exchange-traded funds ("ETFs"), exchange-traded notes ("ETNs") and other exchange-traded products ("ETPs"). The shares of an ETF may be assembled in a block (typically 50,000 shares) known as a creation unit and redeemed in kind for a portfolio of the underlying securities (based on the ETF's net asset value) together with a cash payment generally equal to accumulated dividends as of the date of redemption. Conversely, a creation unit may be purchased from the ETF by depositing a specified portfolio of the ETF's underlying securities, as well as a cash payment generally equal to accumulated dividends of the securities (net of expenses) up to the time of deposit. Worm Capital's ability to redeem creation units may be limited by the Investment Company Act, which provides that the ETFs will not be obligated to redeem shares held by Worm Capital in an amount exceeding one percent of their total outstanding securities during any period of less than 30 days. ETPs other than ETFs are issued in shares or units, and trade on exchanges like ETFs.

There is a risk that the underlying ETPs in which Worm Capital invests may terminate due to extraordinary events that may cause any of the service providers to the ETPs, such as the trustees or sponsors, to close or otherwise fail to perform their obligations to the ETPs. Also, because the ETPs in which Worm Capital invests may be granted licenses by agreement to use various indices as a basis for determining their compositions and/or otherwise to use certain trade names, the ETPs may terminate if such license agreements are terminated. In addition, an ETP may terminate if its net assets fall below a certain amount. Although Worm Capital believes that, in the event of the termination of an underlying ETP, it will be able to invest instead in shares of an alternate ETP with a similar strategy, there is no guarantee that shares of an alternate ETP would be available for investment at that time.

Investments in ETPs involve certain inherent risks generally associated with investments in conventional registered investment companies (e.g., mutual funds) that hold a portfolio of securities including, without limitation: (1) risks that the general level of security prices for the ETP's investment strategy may decline, thereby adversely affecting the value of each share or unit of the ETP; (2) an index-based ETP may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETP and the index with respect to the weighting of securities or number of stocks held; and (3) an index ETP may also be adversely affected by the performance of the specific index, market sector or group of industries on which it is based. In addition, ETPs are subject to the following risks that do not apply to conventional funds: (1) the market price of an ETP's shares may trade at a discount to its net asset value; (2) an active trading market for an ETP's shares may not develop or be maintained; (3) trading of an ETP's shares may be halted if the listing exchange deems such action appropriate; and (4) ETP shares may be delisted from the exchange on which they trade, or activation of "circuit breakers" (which are tied to large decreases in stock prices) may halt trading temporarily. ETPs are also subject to the risks of the underlying securities the ETP is designed to track or invest in.

Foreign Securities: Investments in foreign securities may be volatile and can decline significantly in response to foreign issuer political, regulatory, market or economic developments. Foreign securities are also subject to interest rate and currency exchange rate risks. These risks may be magnified in securities originating in emerging markets. Foreign securities may also be subject to additional or complex tax issues.

New Issues: The portfolio may invest in "New Issues" as that term is defined in FINRA Rule 5130. Such investments offer the opportunity for significant appreciation; however, they are speculative and involve a high degree of risk. It is characteristic of the initial public offerings market that certain companies may be extremely successful, while a much higher percentage of new public companies fail. Thus, the risk of investing in initial public offerings is substantially greater than investing in the stock market as a whole. Restricted Partners and Covered Partners may be precluded from participating, in whole or in part, in the Portfolio's investments in New Issues, subject to the "de minimis" exception under the New Issues Rules. To the extent that a potential Partner is "restricted" or "covered," an investment in the portfolio may not yield the performance results that may be achieved by those investors that are entitled to receive allocations with respect to New Issues. Any Partner who does not provide the portfolio with sufficient information to show that such Partner is not a restricted person or a covered person will be presumed to be a restricted person or a covered person and may receive reduced allocations with respect to New Issues and any profit therefrom.

Private Company Risk: Some of the portfolios may invest in private companies that are in the early stages of growth, and the performance of early-stage companies may be more volatile due to their limited product lines, markets or financial reserves, their susceptibility to competitors' actions, or major economic downturns. Such investments may also depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on the prospective business opportunities and the investments made. Some of the private companies in which investments are made may require a significant investment of capital to support their operating or finance the development of their products or markets, and may be highly leveraged and subject to significant debt service obligations, which could have a material adverse impact on the investment.

Smaller Company Risk: Portfolios may contain the securities of small- or mid-cap issuers. Small-cap issuers generally have less demand for their products and services and more limited managerial and financial resources than larger, more established issuers. As a result, securities of small- and mid-cap issuers may be more sensitive to market downturns than those of large-cap issuers, thereby causing the value of the Client

portfolios to also be more sensitive to market downturns. Investments may be made in smaller companies with limited financial resources that may be unable to meet their obligations, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt. Further, there may be little public information about such companies. As a result, investors may have to rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision. Such companies may not have a readily available market for their securities. The possibility that a portfolio company will not be able to adequately commercialize its technologies, products or business concepts presents significant risk.

## **Risks Related to Fixed Income Investments**

Credit Risk: Credit risk is the risk that the issuer or guarantor of a debt security or counterparty to the portfolio's transactions will be unable or unwilling to make timely principal and/or interest payments, or otherwise will be unable or unwilling to honor its financial obligations. If the issuer, guarantor, or counterparty fails to pay interest, the portfolio's income may be reduced. If the issuer, guarantor, or counterparty fails to repay principal, the value of that security and the value of the portfolio may be reduced.

Debt and Other Income Securities: The portfolios may invest in fixed-income and adjustable rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations.

The debt securities in which the portfolio may invest are not required to satisfy any minimum credit rating standard, and may include instruments that are considered to be of relatively poor standing and have predominantly speculative characteristics with respect to capacity to pay interest and repay principal. The portfolio may invest in bonds rated lower than investment grade, which may be considered speculative. The portfolio may also invest a substantial portion of its assets in high-risk instruments that are low rated, unrated or in default.

Fixed Income Securities: Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The market values of fixed income securities tend to vary inversely with the level of interest rates. Notwithstanding the foregoing, when economic conditions appear to be deteriorating, medium to lower rated securities may decline in value due to heightened concern over credit quality, regardless of prevailing interest rates.

High-Yield Securities: The portfolio may invest in high-yield securities. Such securities are generally not exchange traded and, as a result, these instruments trade in a smaller secondary market than exchange-traded bonds. In addition, the portfolio may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. (The portfolio is not required to hedge, and may choose not to do so.) High-yield securities that are below investment grade or unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the



market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Interest Rate Risk: The value of a portfolio's fixed income investments will generally vary inversely with the direction of prevailing interest rate movements. Generally, when interest rates rise, the value of a portfolio's fixed income investments can be expected to decline.

Municipal Securities: Investments may be made in municipal securities. Municipal securities consist of (1) debt obligations issued by state and local governments or by public authorities to obtain funds to be used for various public facilities, for refunding outstanding obligations, for general operating expenses and for lending such funds to other public institutions and facilities, and (2) certain private activity and industrial development bonds issued by or on behalf of public authorities to obtain funds to provide for the construction, equipment, repair or improvement of privately operated facilities. Prices and yields on municipal bonds are dependent on a variety of factors, such as the financial condition of the issuer, general conditions of the municipal bond market, and the size of a particular offering, the maturity of the obligation and the rating of the issue.

Rating Agencies: Ratings assigned by Moody's and/or S&P and/or Fitch to securities acquired in a portfolio reflect only the views of those agencies. Explanations of the significance of ratings should be obtained from Moody's, S&P and Fitch. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of Moody's, S&P or Fitch, circumstances so warrant. A lower rating may adversely affect the value of the security acquired by a portfolio, thereby adversely affecting the value of the portfolio.

### **Risk of Private Investment Vehicles**

Worm Capital may recommend that certain Clients invest in privately placed collective investment vehicles that are only available to Clients who are qualified purchasers and/or accredited investors. Because private investment vehicles are not registered investment companies, they are not subject to the same regulatory reporting or oversight of a registered entity. The Private Funds' portfolios may be subject to wide swings in value. An investment in a Private Fund will not be liquid and is suitable only for persons who have no need for a return of any part of their investment for several years, have the same investment objective as the Private Fund, and can bear a loss of some or all of their investment. The Private Funds do not employ limitations on particular sectors, industries, countries, regions or securities. Trading in the portfolio may affect investment performance, particularly through increased brokerage and other transaction costs and taxes. Management of the Private Funds also has a unique compensation structure which could present conflicts of interest. The Private Funds do not have publicly available valuation information. Private Fund valuations are available monthly and are reliant on the valuations of the custodian and/or the fund administrator.

Alternative investment products often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. Because risks are inherent in all the investments in which the Private Funds engage, no assurances can be given that the Private Funds' investment objectives will be realized. There can be no assurance that the Private Funds will achieve their investment objective or avoid substantial losses. An investor could lose all or a substantial amount of his or her investment. Notwithstanding the method of analysis or investment strategy employed by the Firm, the assets within the Private Funds are subject to risk of devaluation or loss. An investor should not make an investment in any Private Fund with the expectation of sheltering income or receiving cash distributions. Worm Capital believes that substantial returns can be achieved by investing in the Private Funds; however, such

investment involves a high degree of risk. Because risks are inherent in all the investments in which the Private Funds engage, no assurances can be given that the Private Funds' investment objectives will be realized. Worm Capital urges investors to review carefully the risk factors set forth in each Private Fund's private placement memorandum. Each Private Fund's private placement memorandum contains important information concerning risk factors and other material aspects of the Private Funds and must be read carefully before any decision whether to invest is made. The risk factors set forth in each Private Fund's private placement memorandum are those deemed by Worm Capital to be the most significant.

In addition to all of the risk factors listed in the private placement memorandum in great detail, an investor also should carefully consider the following risks prior to making an investment in the Funds:

General Investment Risks. The Private Funds' success depends upon Worm Capital's ability to implement its investment strategy. Any factor that would make it more difficult to execute timely trades may also be detrimental to the Funds' profitability.

Investment and Trading Risks. All investments involve the risk of loss of capital. Worm Capital believes that the Private Funds' investment program and its research and risk-management techniques moderate this risk through the careful selection of securities and other financial instruments. The Private Funds' investment programs will utilize such investment techniques as option transactions, limited diversification, margin transactions, and short sales, which practices can, in certain circumstances, maximize the adverse impact to which the Private Funds may be subject.

Dependence on Key Personnel. Often, hedge fund managers have total trading authority over their funds. The success of the Private Funds depends in substantial part upon the skill and expertise of the principal who will be responsible for managing the Private Funds.

General Economic Conditions. The success of the Private Funds' activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of U.S. equity prices and liquidity of the Private Funds' investments.

Execution of Orders. The Private Funds' trading strategies depend on the ability to establish and maintain an overall market position in a combination of financial instruments selected by Worm Capital. The Private Funds' trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to employees, brokers, agents or other service providers.

While this information provides a synopsis of the events that may affect your investments in any Private Fund, this listing is not exhaustive. Please read the Risk Disclosures section in each Private Fund's private placement memorandum carefully. There are inherent risks associated with investing in the Private Funds; THE CLIENT COULD LOSE ALL OR A SUBSTANTIAL AMOUNT OF THEIR INVESTMENT.

These strategies may not be suitable for all Investors. Investors in a private partnership who are subject to income tax, should be aware that the investment in the partnership may create taxable income or tax liabilities in excess of cash distributions to pay such liabilities. Past performance is not indicative of future results.

## **ITEM 9 – DISCIPLINARY INFORMATION**

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of them or the integrity of their management. Worm Capital does not have any information applicable to this item.

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

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### **Registered Representatives**

Neither Worm Capital nor its management or supervised persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **Other Registrations**

Neither Worm Capital nor its management or supervised persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

### **Material Relationships or Arrangements**

Worm Capital is required to disclose any relationship or arrangement that is material to its advisory business or to its Clients with certain related persons. Worm Capital serves as the general partner to the Private Funds it manages.

### **Recommendations of Other Investment Advisers**

Worm Capital does not recommend other investment advisers to its Clients.

## **ITEM 11 – CODE OF ETHICS**

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Worm Capital has adopted a Code of Ethics pursuant to SEC rule 204A-1 of the Investment Advisers Act of 1940, as amended. A basic tenet of Worm Capital's Code of Ethics is that the interests of Clients are always placed first. In addition, Worm Capital has identified five major responsibilities that demonstrate its commitment as a trusted fiduciary. They are to (1) put the Client's interest first, (2) act with utmost good faith, (3) provide full and fair disclosure, (4) not mislead Clients, and (5) expose all conflicts of interest to Clients. The Code of Ethics includes standards of business conduct requiring covered persons to comply with the federal securities laws and the fiduciary duties an investment adviser owes to its Clients. Worm Capital will provide a copy of its Code of Ethics to any Client or prospective Client upon request.

### **Recommendations of Securities and Material Financial Interests**

As a matter of policy, Worm Capital does not engage in principal transactions, cross trading or agency cross transactions. Any exceptions to this policy must be approved in advance by the Chief Compliance Officer or his designee.

As discussed above in response to Item 4, Worm Capital is the general partner to the Private Funds. Worm

Capital may recommend, on a fully disclosed basis, that certain Clients invest in the Private Funds. As such, a conflict of interest exists to the extent that Worm Capital recommends that Clients invest in the Private Funds. Worm Capital has an incentive to recommend the fund as opposed to other funds they don't manage due to the compensation they may receive from advising the two funds. This risk is mitigated because Worm Capital will always make recommendations that are in the best interests of the Client.

Additionally, Worm Capital may give advice or take action with respect to the Private Funds that differs from that for individual Client accounts. To the extent that a particular investment is suitable for both the Private Funds and certain individual Client accounts, such investments will be allocated between the Private Funds and the individual Client accounts in a manner which Worm Capital determines is fair and equitable under the circumstances to all of its Clients.

## **Personal Trading**

Worm Capital and persons associated with Worm Capital ("Access Persons") are permitted to buy or sell securities that it also recommends to Clients consistent with Worm Capital's policies and procedures. Access Persons will not buy or sell securities that may have detrimental effects on accounts of Clients. Proprietary accounts will not be intentionally favored over Client accounts.

Access Persons are required to notify Worm Capital's Chief Compliance Officer or his designee to pre-clear personal securities transactions in Reportable Securities and Reportable Funds (as defined on Worm Capital's Code of Ethics), IPOs and Limited Offerings.

To mitigate potential conflicts of interest that could be created by personal trading among Worm Capital Access Persons, each Access Person must provide quarterly reports of their personal transactions within 30 days of the end of each calendar quarter, which may consist of monthly brokerage statements for all accounts in which they have a beneficial interest, to the CCO. Alternately, each Access Person may direct their brokers to send copies of all brokerage confirmations relating to all personal securities transactions in which they have a beneficial ownership interest. Each Access Person must also submit to Worm Capital's CCO statements of their personal holdings in Reportable Securities as well as information about any brokerage accounts in which securities may be held within 10 days after becoming subject to the Code of Ethics and on an annual basis thereafter.

The Code also requires that all Access Persons comply with ethical restraints relating to Clients and their accounts, including restrictions on gifts and provisions intended to prevent violations of laws prohibiting insider trading. Worm Capital and its respective officers and employees may act and continue to act as investment advisers and managers for others, and may choose to act as Investors on their own behalf.

Worm Capital is required to treat its Clients fairly in relation to such conflicts of interest or material interests. Worm Capital has adequate policies and procedures to protect its Clients' interests and disclosing to Clients the possibility of such conflicts. Such policies and procedures include, but are not limited to, Worm Capital's Code of Ethics, personal trading policies, trade aggregation and allocation policies, policies governing outside business activities and gifts and entertainment.

## **Timing of Personal Trading**

As discussed below, none of Worm Capital's Access Persons may trade ahead of a Client order for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person). If an Access Person or an Access Person's immediate family member, as

defined in Worm Capital's Code, are trading in the same security as a Client of Worm Capital, each participant in the trade will receive the average execution price and commissions, and the securities will be allocated in a fair and equitable manner.

In limited circumstances, Worm Capital may decide to trade for each Client and Access Person independently. However, when Worm Capital is independently purchasing or considering for purchase any security on behalf of a Client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Worm Capital is independently selling or considering the sale of any security on behalf of a Client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

## **ITEM 12 – BROKERAGE PRACTICES**

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### **Selection of Broker/Dealers**

Worm Capital generally recommends that Clients utilize the brokerage and clearing services of Charles Schwab & Co. ("Schwab") for SMAs and Interactive Brokers for the Private Funds. Schwab allows for Worm Capital to transact in securities at a negotiated rate. The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other broker-dealers.

In recommending Schwab, or any other broker-dealer to its Clients, Worm Capital will consider their respective financial strength, reputation, execution, pricing, research and service in addition to the best net price, giving effect to brokerage commissions, spreads and other costs. Worm Capital may also apply many other judgmental factors deemed relevant. In applying these factors, Worm Capital recognizes that different broker-dealers may have different execution capabilities with respect to different types of securities. The factors include, but are not limited to:

- Worm Capital's knowledge of negotiated commission rates and spreads currently available;
- the nature of the security being traded;
- the size and type of the transaction;
- the nature and character of the markets for the security to be purchased or sold;
- the desired timing of the trade and speed of execution;
- the activity existing and expected in the market for the particular security;
- the broker-dealer's access to primary markets and quotation sources;
- the ability of the broker-dealer to effect transactions when a large block of securities is involved or where liquidity is limited;
- confidentiality;
- the execution, clearance and settlement capabilities and history as well as the reputation;
- Adviser's knowledge of actual or apparent operational problems of any broker-dealer;
- the broker-dealer's execution services rendered on a continuing basis and in other transactions;
- the broker-dealer's access to underwriting offerings and secondary markets;
- the broker-dealer's reliability in executing trades, keeping records and accounting for and correcting trade errors;

- the broker-dealer's ability to accommodate Worm Capital's needs with respect to one or more trades including willingness and ability to maintain quality execution in unusual or volatile market conditions and to commit capital by taking positions in order to complete trades;
- the quality of communication links between Worm Capital and the broker-dealer; and
- the reasonableness of spreads or commissions.

Worm Capital may receive proprietary research, services, execution abilities, or other legitimate and appropriate services that are particularly helpful in Worm Capital's investment decision making process from Schwab. Such research generally will be used to service all of Worm Capital's Clients and is not tied to Client account transactions (i.e., not "soft dollars"). The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Worm Capital does not have to produce or pay for the products or services received.

Clients may select a broker/dealer or account custodian different from one recommended by Worm Capital and direct Worm Capital to use that broker/dealer or custodian to maintain custody of their assets. Worm Capital has discretion to reject the Client's request for directed brokerage. When a Client directs the use of a particular broker/dealer or other custodian, Worm Capital may not be able to obtain the best price and execution for the transaction. Clients who direct the use of a particular broker/dealer or custodian may receive less favorable prices than would otherwise be the case if Clients had not designated a particular broker/dealer or custodian. Further, directed trades may be placed by Worm Capital after effecting non-directed trades.

### **Aggregation of Orders**

Transactions for each Client generally will be effected independently, unless Worm Capital decides to purchase or sell the same securities for several Clients at approximately the same time, for example, during a strategy or model rebalance. Worm Capital may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Worm Capital's Clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Worm Capital's Clients pro rata to the purchase and sale orders placed for each Client on any given day. Worm shall not receive any additional compensation or remuneration as a result of the aggregation.

In the event that Worm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Worm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis. When trade

orders are not combined, the price of securities may differ among Clients.

## **ITEM 13 – REVIEW OF ACCOUNTS**

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### **Frequency and Nature of Review**

The Firm monitors Client portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Reviews of the Private Fund's portfolios are conducted at least quarterly to ensure it is consistent with what is mandated in the Fund documents.

All investment advisory Clients are encouraged to discuss their needs, goals, financial situation, and investment objectives with Worm Capital and to keep Worm Capital informed of any changes thereto. Worm Capital may contact ongoing investment advisory Clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the Client's financial situation and/or investment objectives.

Arne Alsin, Zachary Lash, and Daniel Crowley are responsible for overseeing all investment advisory activities daily. Worm Capital attempts to achieve long-term appreciation of each Client's investments.

### **Factors That May Trigger an Account Review Outside of Regular Review**

More frequent reviews are triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in economic climate or markets.

### **Content and Frequency of Reports**

Unless otherwise agreed upon, Clients are provided with transaction confirmation notices and monthly summary account statements directly from the broker-dealer or custodian for the Client accounts. Clients receiving investment advisory services may also receive portfolio commentary once a quarter from Worm Capital. Worm Capital may discuss positions, state of the market, etc. Worm Capital will also supply you with an invoice containing the fee formula, the time period used to calculate the fees and the dollar amount of assets used to calculate the fees if requested. Clients should compare the account statements they receive from their custodian with those they receive from Worm Capital. Private Fund investors will receive reports and notices as set forth in their respective offering documents.

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

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Worm Capital is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-Client) for providing advisory services. In addition, Worm Capital is required to disclose any direct or indirect compensation that it provides for Client referrals.

Worm Capital has entered into arrangements with solicitors to refer potential clients to Worm Capital. All such agreements are in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. When a prospective client is introduced to Worm Capital by a solicitor and then becomes a client, Worm Capital pays the referring solicitor a fee. While the specific terms of each arrangement may differ, generally, the compensation paid to the solicitor is based upon the engagement and retention of new clients, and is calculated using a varying percentage of the advisory and performance fees (if any) paid by the clients. Each prospective client who is referred to Worm Capital under such an arrangement will receive a copy of Worm Capital's Form ADV Part 2 and a separate written disclosure statement disclosing the nature of the relationship between the third party solicitor and Worm Capital, which will disclose the amount of

compensation that will be paid by Worm Capital to the solicitor. Worm Capital is required to obtain a copy of the disclosure statement with the client's signature, which acknowledges the client's receipt of Worm Capital's Form ADV Part 2 and the solicitor's written disclosure statement outlining the arrangement.

Worm Capital has also entered into arrangements to refer potential clients to outside investment advisors. All such agreements are in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. When Worm Capital refers a prospective client to another firm who then becomes their client, Worm Capital receives a percentage of the advisory fees charged to said client.

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## **ITEM 15 – CUSTODY**

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### **Separately Managed Accounts**

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains Client's investment assets. This will be either electronically or by mail depending on what the Client selects on their account application. Worm Capital takes steps to ensure that the Client's qualified custodian sends periodic account statements to the Client, no less frequently than quarterly, showing all transactions in the account, including fees paid to Worm Capital. The Client provides written authorization to the custodian for direct payment of management fees to Worm Capital. The custodian will not be responsible for calculating the amount of the fee and does not verify Worm Capital's fee calculation. It is important for Clients to carefully review their custodian statements to verify this information.

Custody means holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. Worm Capital has custody of its client's portfolio assets because it can deduct advisory fees payable to it. Worm Capital does not have physical custody of any client funds or securities. Physical custody of our client's funds and securities are held by a Worm Capital preferred qualified custodian. Worm Capital does not take physical custody of client assets and/or securities under any circumstances. Client funds and securities are held by the qualified custodian. While Worm Capital does not have physical custody of client funds or securities, payments of fees may be paid by the custodian from the custodial brokerage account that holds client funds pursuant to the client's account application. In certain jurisdictions, the ability of a Firm to withdraw its advisory fees from the client's account may be deemed custody.

### **Private Funds**

As the investment adviser and general partner to the Private Funds, Worm Capital is deemed to have custody of the Private Funds' assets. Worm Capital maintains the Private Funds' cash and securities with a "qualified custodian" and provides Private Fund investors with annual audited financial statements within 120 days of the end of the relevant Private Fund's fiscal year-end, or as otherwise permitted under Rule 206(4)-2 under the Advisers Act.

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## **ITEM 16 – INVESTMENT DISCRETION**

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The Advisory Agreement or, in the case of a Private Fund, its organizational documents or subscription agreement, contains an authorization by which Clients grant Worm Capital discretion to make purchases and sales for their accounts or the Private Fund without requiring the Firm to obtain Client consent or approval prior to each transaction, to select the types and amounts of securities that are bought and sold for such Clients' accounts or the Private Funds, the broker or dealer used to effect such transactions and the



commission rates paid. However, in the case of a SMA, Clients may specify their investment objectives and guidelines, select their portfolio strategies and impose certain reasonable conditions or investment parameters for their accounts. For example, Clients may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or reasonable restrictions or prohibitions of transactions in the securities of a specific industry or security.

In all cases, Worm Capital exercises its discretion in a manner consistent with the investment objectives each Client states for its account or as stated in the Private Fund's offering documents, as applicable. In the case of a Separately Managed Account, Worm Capital may ask Clients to provide written investment objectives or guidelines or to confirm their objectives, guidelines, or any trading restrictions when opening the account or at any time after Worm Capital has begun to manage the account. Discretionary authority for SMAs does not give Worm Capital authority to take or have possession of any assets, or direct delivery of any securities or payment of funds to anyone other than the Client.

#### **ITEM 17 – VOTING CLIENT SECURITIES**

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Worm Capital votes proxies on behalf of its Client accounts when authorized to do so by the relevant investment management agreement between Worm Capital and the Client. These voting responsibilities are exercised in accordance with the applicable provisions of the Investment Advisers Act of 1940, as amended, as well as with Worm Capital's fiduciary duties under applicable law to act in the best interests of its Clients. When voting proxies on behalf of Clients, Worm Capital strives to vote such securities in a manner that furthers the Clients' best interests.

Though it may not be clear how best to vote a proxy to maximize shareholder value or be able to decide with certainty, these policies are intended to provide guidance so that Worm Capital acts in a manner it deems to be prudent and diligent and which is intended to enhance the economic value of the Client's assets. A copy of Worm Capital's proxy voting guidelines is available upon request.

#### **ITEM 18 – FINANCIAL INFORMATION**

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Worm Capital does not solicit prepayment of more than \$1,200 in fees per Client six (6) months in advance and is not required to submit a balance sheet.

Worm Capital does not have a financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to Clients.

Worm Capital has not been the subject of a bankruptcy petition at any time during the past ten years.