

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

**AGILON CAPITAL LLC**



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This brochure ("Brochure"), dated November 1, 2018, provides information about the qualifications and business practices of Agilon Capital LLC (the "Adviser"). If you have any questions about the contents of this Brochure, please contact us at 415-635-0080.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Registration as an investment adviser with the SEC does not imply a certain level of skill or training of the Adviser or its personnel.

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

**ITEM 2. MATERIAL CHANGES**

This Form ADV Part 2A amendment updates the Adviser's assets under management to reflect that the Adviser now manages \$100,000,000 in Client assets.

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#### **ITEM 4. ADVISORY BUSINESS**

The Adviser is a Delaware limited liability company, which was formed in May 15, 2018. The Adviser has its principal place of business in San Francisco, California. The Adviser is wholly owned by Agilon Capital Holdings LLC, a Delaware limited liability company. David Horowitz is currently the majority owner of Agilon Capital Holdings LLC. The Adviser's Chief Executive Officer is David Horowitz and its Chief Operating Officer and Chief Compliance Officer ("CCO") is Joseph Canepari.

The Adviser provides investment advisory services to one or more separately managed accounts (each, a "Client," and collectively, the "Clients").

The Adviser will enter into an investment management agreement with each Client, which will contain or refer to such Client's investment mandates, parameters and restrictions (the "Investment Guidelines"). The Investment Guidelines are periodically reviewed and revised, as needed or appropriate, by the Adviser and the applicable Clients.

The Adviser may provide discretionary investment advice to some Clients and non-discretionary investment advice to other Clients. Currently, the Adviser manages \$100,000,000 of Client assets on a discretionary basis, and no Client assets on a non-discretionary basis.

#### **ITEM 5. FEES AND COMPENSATION**

The management fees and performance-based compensation, if any, payable by each Client or its affiliate is set forth in detail in each Client's investment management agreement. Generally, the Adviser receives a management fee from each Client that is equal to a percentage of the assets of such Client that are managed by the Adviser. In addition, the Adviser may be entitled to a performance-based fee or allocation from such Client, as described in Item 6. The fees and payments listed above are negotiated and agreed upon in advance. Typically, the management fees are deducted from a Client's account (or the account of its beneficial owners) at the beginning of each calendar month and the performance-based fee or allocation is deducted or debited, as applicable, from a Client's account (or the account of its beneficial owners) at the end of each fiscal quarter or fiscal year.

Each Client is responsible for its organizational expenses (typically, up to a certain cap, as specified in the Client's investment management agreement).

Each Client will also be responsible for its operating expenses, which may include, but are not limited to, the following: (i) all expenses incurred in connection with the Client's operations, including all expenses related to the purchase, holding, sale or proposed sale of any Client investments, including research, travel-related expenses, legal and compliance expenses, administrator and administrative expenses and all unreimbursed

third-party out-of-pocket costs and expenses of custodians, paying agents, registrars, counsel, independent accountants, brokers and others, and valuation expenses; (ii) all costs and fees incurred in connection with the preparation of or relating to financial and tax reports made to the Client's beneficial owners; (iii) any expenses relating to the Client's committee(s), if any; (iv) any costs incurred in connection with the preparation of or relating to reports required to be filed in connection with the Client's investments with any governmental authority; (v) any interest on and fees and expenses arising out of all permitted borrowings made by the Client; (vi) any costs related to the Partnership's indemnification or contribution obligations; (vii) the cost of any litigation, director and officer liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Client; (viii) any unreimbursed out-of-pocket expenses and extraordinary professional fees incurred in connection with the business or management of the Client; (ix) any expenses of liquidating the Client; (x) any taxes, fees or other governmental charges levied against the Client (and not attributable to a beneficial owner) and any expenses incurred in connection with any tax audit, investigation, settlement or review of the Client; and (xi) the management fee payable to the Adviser.

#### **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As disclosed in Item 5 of this Brochure, the Adviser may be entitled to receive a performance-based fee or allocation from a Client, which is based on a percentage of capital gains on or capital appreciation of the assets of such Client. The performance-based fee or allocation is subject to a high watermark, which prevents the Adviser from receiving any performance-based fee or allocation with respect to profits that simply restore previous losses, and is intended to ensure that the performance-based fee or allocation is based on the long-term performance of an investment in the Client.

Investors should be aware that performance-based fee or allocation arrangements may create an incentive for the Adviser, to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. This arrangement may cause investors to pay a greater expense than if such fees were not charged. The Adviser seeks to address such conflicts in a fair and equitable basis in its good faith discretion and has established policies and procedures to address the potential conflicts of interest described above through careful review of investment opportunities.

#### **ITEM 7. TYPES OF CLIENTS**

Currently, the Adviser only provides investment advisory services to separately managed accounts. The Adviser anticipates providing investment advisory services to one or more pooled investment vehicles in the future.

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

## **Investment Strategy**

The Adviser specializes in systematic/algorithmic fixed income investment strategies. The Adviser's flagship offering is a systematic long/short credit strategy that is market/duration neutral. The Clients' portfolios will primarily consist of (i) investment grade and high yield corporate bonds, (ii) single name, exchange cleared credit default swaps, and (iii) treasury futures. The Adviser's instrument selection process favors on-the-run, senior, unsecured debt, with a preference for more liquid instruments.

The Adviser uses its unique research process, including its proprietary research engine, and leverages its personnel's combined experience and expertise, to investigate market insights and develop systematic models. The Adviser strives to identify repeatable sources of uncorrelated alpha that predictably produce market neutral returns. The Adviser believes that this approach effectively creates an automated analysis of every issuer in each Client's universe of possible investments. Using this approach, the Adviser's investment strategy attempts to capture market developments that are predictive of future price patterns in companies' securities. Throughout the investment process, the objective is to neutralize market beta exposure, in an effort to generate returns that are comprised of pure alpha.

The Adviser employs a proprietary risk model that monitors market risk factors, implementation shortfall and rapid spikes in market volatility. Additionally, the model benchmarks returns against the model portfolio to ensure that performance is consistent with the strategy's research expectations. The Adviser endeavors to have the best execution available for its Clients' trades.

## **Risks**

The following risks are not intended to be a complete list or description of all of the risks related to the Clients' investments. The applicable Client's investment management agreement may contain additional information and risk factors.

### *Risk of Investment in Securities.*

All securities investments risk the loss of capital. No guarantee or representation is made that a Client will achieve its investment objective or that investors will not lose all or substantially all of their investment in the Client.

### *Risks Related to the Adviser's Systematic Models.*

The Adviser's investment strategy relies on its proprietary systematic models, which are continually being updated and refined. Although the Adviser employs processes and procedures designed to monitor, identify and remedy analytical, coding, implementation and other errors or defects related to the systematic models, the Adviser does not guarantee that its internal processes and procedures will effectively identify and remedy

all errors or defects in or related to the systematic models. The performance of the Clients' investments could be negatively affected by undetected errors or defects in or related to the systematic models.

The Adviser's investment strategy depends on its analysis and interpretation of the systematic models' data/output, which is in turn dependent on the quality of the market data and other inputs utilized by the systematic models, changes in credit market conditions, creation and maintenance of the systematic models' software and the successful incorporation of the systematic models' output into the construction of Client portfolios. Human error may adversely affect the creation, maintenance and use of the systematic models. Moreover, the Adviser's personnel exercise discretion in the utilization of the systematic models and the investment results of Client accounts are dependent on the ability of the Adviser's personnel to correctly analyze, understand and implement the systematic models' signals.

#### *Credit Default Swaps.*

If Clients enter into credit default swap ("CDS") agreements as either the purchasers or sellers of CDS. The Adviser will ensure that the Clients and their trading counterparties all adhere to the 2009 ISDA Auction Settlement Supplement. If a trading counterparty defaults, as determined by the ISDA sanctioned Credit Derivatives Determinations Committee, the seller must make a cash settlement payment to the purchaser in an amount determined via an ISDA sanctioned auction settlement determination for the reference entities' securities. CDS may involve greater risks than if the Client had invested in the reference obligation directly. In addition to general market risks, CDS are subject to illiquidity risk, counterparty risk and credit risks.

#### *Fixed Income and Debt Securities.*

The Clients invest in fixed income securities, debt securities or bonds of U.S. issuers (e.g., bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities; bank debt; and commercial paper, some of which may have speculative characteristics). These types of securities pay fixed, variable or floating rates of interest. The value of fixed income and debt securities in which the Clients invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income and debt securities and bank loans can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income and debt securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (e.g., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (e.g., market risk). A major economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments.

### *Derivative/Counterparty Risk.*

The Clients enter into swap agreements involving interest rate swaps and credit default swaps. Although the Adviser will only cause the Clients to enter into swap agreements with a counterparty whose claims-paying ability is considered by the Adviser to be investment grade, where the Client and the counterparty have entered into an ISDA Agreement and Collateral Support Annex and where there is collateral, there is still a risk that a Client's swap counterparty could default on its obligations under a swap agreement. In the event of such default, the Client could lose any of the swap's appreciation in the value and incur the costs of implementing a new swap agreement.

The Clients buy and sell derivative securities in the "over-the-counter" markets. Unlike members of "exchange-based" markets, participants in the over-the-counter markets are typically not subject to credit evaluation and regulatory oversight. Accordingly, there is a risk that a counterparty to a Client's transaction may not settle a transaction in accordance with its terms, for example, due to a credit or liquidity problem. These markets also do not have established rules and procedures for settling disputes among market participants, which could cause delays in settlement between parties disputing the terms of the contract. Such "counterparty risk" may be greater for contracts with longer maturities or in the event that the Clients' transactions are concentrated with a small group of counterparties.

### *Futures Risks.*

Not only are futures volatile, they may be illiquid due to a commodity exchange's limit on the fluctuations permitted with respect to certain futures contract prices during a single day, which are required by the "daily price fluctuation limits" or "daily limits" regulations. Under these regulations, during a trading day no trades may be executed at prices beyond the daily limits. Thus, once the daily limit is reached for a particular contract, positions in that contract may not be taken or liquidated unless the parties agree to effect trades at or within the daily limit. If the daily limit is reached, it could prevent a Client from liquidating unfavorable positions, which could subject it to losses.

Further, if the contracts are lightly traded, a Client may not be able to execute futures contract trades at favorable prices. Also, trading may be suspended by an exchange or the U.S. Commodity Futures Trading Commission (the "CFTC") or such exchange or the CFTC may order the liquidation and settlement of a particular contract, or only allow trades with respect to a particular contract to be conducted for liquidation purposes.

### *Leverage Risk.*

The use of leverage is anticipated to be an important part of the Clients' investment strategy. Risks related to employing leverage results from certain transactions, including the use of derivatives, borrowing and reverse repurchase agreements. Leverage may create more yield and total return but also increases a Client's exposure to capital risk and



interest costs. Any income and gains earned on investments made by employing leverage that exceed the interest costs associated therewith may cause the value of a Client's portfolio to increase more quickly than would be the case without the use of leverage. Conversely, if the associated interest costs exceed investment income and gains, the value of a Client's portfolio may decrease more quickly than would be the case without the use of leverage.

#### *Investment Grade Debt Securities.*

Debt securities that are rated in the BBB (or equivalent) category generally are considered investment grade even though they may have speculative characteristics. Investments in these types of securities may, in some cases, result in greater fluctuation in the net asset value of a Client's portfolio than if the Client only invested in higher-rated investment grade securities with similar maturities. Further, a change in economic conditions or other circumstances are more likely to result in a reduced capacity to make principal and interest payments when compared to higher grade bonds.

#### *Interest Rates.*

The value of a Client's portfolio may be affected by changes in interest rates. Generally, if interest rates rise, the values of debt securities generally fall. Typically, the longer the average duration of a Client's portfolio, the greater the change in value. Duration measures the expected life of a fixed income security and was developed as a more precise alternative to the "term to maturity" concept. Generally, interest rate risk will affect the price of a debt security more if the security has a longer maturity, which makes these types of securities more volatile than debt securities with shorter maturities. Although debt securities with shorter maturities are less volatile, they generally provide lower returns compared to debt securities with longer maturities.

#### *Non-Investment Grade Debt Securities.*

The Clients' portfolios could contain debt securities that are rated below investment grade or deemed by the Adviser to be below investment grade. These securities could be rated BB or lower by Standard & Poor's Corporation and/or Ba or lower by Moody's Investors Service, Inc. and are often referred to as high yield debt securities. These securities are considered speculative and, when compared to higher quality securities, involve greater risk of loss of principal and income, such as the possibility of default or bankruptcy of the issuers of such securities. These lower rated securities tend to be more affected by economic changes and short-term corporate and industry developments than higher quality securities.

#### *Liquidity Risk.*

A portion of the securities or instruments transacted by the Clients are not be listed or rated and may be less liquid. Accumulating and disposing of these investments may not

occur quickly and may not be executed at favorable prices. Further, liquidity may also be affected by the uncertainty surrounding certain over-the-counter derivatives markets which may be constrained by derivative reform legislation and capital requirements imposed on sell-side firms.

#### *Cyber Security Risk.*

The Adviser is susceptible to cyber security incidents, which may compromise its operational and information security. Cyber security incidents may be the result of unintentional mistakes or deliberate attacks designed to gain unauthorized access to the Adviser's digital systems (e.g., through "hacking" or malicious software coding) to, among other things, misappropriate assets or sensitive information, corrupt data or cause operational disruption. Cyber security attacks also include causing denial-of-service attacks (i.e., efforts to deny services to intended users). Cyber security incidents involving the Adviser may cause disruptions and impact the Adviser's business operations, which could cause financial losses, including by interfering with the calculation of a Client's net asset value; creating impediments to trading for a Client's portfolio; violating applicable privacy, data security or other laws. Cyber security incidents could also result in regulatory fines and penalties, cause reputational damage, and/or require the Adviser to incur reimbursement or other compensation or remediation costs, legal fees or additional compliance costs.

### **ITEM 9. DISCIPLINARY INFORMATION**

Neither the Adviser nor any of its management persons have been involved in any legal or disciplinary events that are material to a Client, investor, prospective Client or prospective investor's evaluation of the Adviser's advisory business or the integrity of its management.

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

The Adviser's personnel will devote a portion of their business time and efforts to each of the Clients. Conflicts of interests may arise, including in allocating management time, services and functions among the Clients, which may not be resolved in favor of any particular Client. The fees paid to the Adviser may differ between and among the Clients, which could influence the amount of time and resources the Adviser devotes to each Client. The Adviser may also give advice, and take action, with respect to any of the Clients that may differ or be completely opposite from the advice given to another Client. The Adviser will allocate investment opportunities among the Clients pursuant to its Investment Allocation Policy. Investors and prospective investors may request a copy of the Investment Allocation Policy by contacting the Adviser at the address or telephone number listed on the first page of this brochure. It should be noted that the Adviser (or an affiliate) may be an investor in some Clients, but not in others, and the amount invested

in the Clients may differ. To the extent a conflict arises, the Adviser will attempt to resolve such conflict in a fair and equitable manner.

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

The Adviser has adopted a Code of Ethics (the “Code”) to comply with Rule 204A-1 under the Advisers Act which sets forth standards of business and personal conduct for all of the Adviser’s employees. The Code is predicated on the basic idea that employees of the Adviser will adhere to certain ethical and fiduciary standards and will conduct their affairs in accordance with the principles of professionalism, integrity, honesty and trust.

The Code establishes policies and procedures that are reasonably designed to: (i) prevent fraud and improper personal trading; (ii) identify circumstances that may result in an actual or potential conflict of interest or the appearance thereof; and (iii) provide a means to resolve such conflicts. Investors and prospective investors may request a copy of the Code by contacting the Adviser at the address or telephone number listed on the first page of this brochure.

All transactions made by employees are closely monitored on an ongoing basis by the CCO to ensure pre-clearance has been sought and obtained when required, and to ensure the personal trading patterns of employees fall within the guidelines set forth in the Code.

Personal trading transactions by employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a Client. To the extent such investment creates a conflict between the Adviser, any general partners and any Client, the Adviser or such general partners, as applicable, will attempt to resolve such conflict in a fair and equitable manner.

#### **ITEM 12. BROKERAGE PRACTICES**

The Adviser seeks “best execution” for Client trades. Best execution generally refers to the execution of portfolio transactions in such a manner that total cost or proceeds in each transaction is the most favorable under the circumstances. The SEC defines best execution as “best qualitative execution,” not merely the lowest possible execution cost.

The Adviser seeks to satisfy its best execution obligation with respect to the Clients by taking into account a number of the following factors when selecting broker-dealers, including among others: price, timeliness of execution, the availability of financing, the financial stability and reputation of a broker, the value of research, brokerage and other services provided, the responsiveness of a broker-dealer, a broker-dealer’s financial resources, counterparty credit risk, and access to liquidity for certain less liquid products.

In the event the Adviser engages in soft dollar arrangements with respect to securities transactions for the Clients, it will generally do so in accordance with the safe harbour under Section 28(e) of the Securities Exchange Act of 1934, as amended.

In certain circumstances, a proposed investment opportunity may meet the investment objectives of multiple Clients. In such circumstances, the Adviser follows the allocation procedures described in Item 10.

The Adviser may, but is not obligated to, aggregate sale and purchase orders of securities placed for one Client with the same or similar orders being made simultaneously by the Adviser for one or more other Clients, if in the Adviser's sole judgment, such aggregation would be consistent with its goal of best execution and if permitted by applicable law or regulation.

### **ITEM 13. REVIEW OF ACCOUNTS**

The Adviser continuously monitors and reviews the performance of the Clients. Each Client's portfolio is reviewed at least quarterly by the Adviser's investment professionals to ensure conformity with the investment objectives and guidelines.

A review of an investment portfolio, other than described above, may also be triggered by material changes in key variables, such as changes in market conditions, changes in investment objectives or policies or changes in capital inflows/outflows, among other things.

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

Neither the Adviser nor any related person directly or indirectly compensates any person who is not a supervised person for Client or investor referrals.

### **ITEM 15. CUSTODY**

For purposes of Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended (the "Custody Rule"), the Adviser may be deemed to have custody over certain Clients' assets. If the Adviser has custody over the Clients' assets, the Adviser will comply with the requirements of the Custody Rule.

### **ITEM 16. INVESTMENT DISCRETION**

The Adviser may provide non-discretionary investment advice to certain Clients. With respect to certain other Clients, the Adviser has full discretionary authority to determine, without obtaining specific consent, investments to be bought or sold, the amount of investments to be bought or sold, broker-dealer to be used and the commission rates to be paid. Any limitations on such authority are included in the Clients' respective investment management agreements.

### **ITEM 17. VOTING CLIENT SECURITIES**

If the Adviser accepts responsibility for voting proxies on behalf of any of the Clients, the Adviser will generally vote in line with company management, as company management is best suited to make decisions that are essential to the ongoing operations of the company. However, the Adviser's policy, first and foremost, is to vote in accordance with the best interest of the Clients. Accordingly, under circumstances in which the Adviser believes that company management's proposals will not maximize the value for the Clients or is not in the best interest of the Clients, the Adviser will vote against company management. In all cases, the reason for the decision, along with a record of the vote is retained by the CCO for the Adviser's books and records.

If a proxy vote presents a conflict of interest, the CCO will present such purported conflict of interest to the Adviser's investment personnel and conduct a conflict analysis. The CCO shall document the matter and how the conflict of interest was resolved or mitigated and retain such documentation for the Adviser's books and records.

Investors and prospective investors may request a copy of the Adviser's policy related to voting proxies by contacting the Adviser at the address or telephone number listed on the first page of this brochure.

#### **ITEM 18. FINANCIAL INFORMATION**

The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the Clients or investors, and the Adviser has not been the subject of a bankruptcy proceeding.