



**Acacia** Asset Management LLC

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

# **Acacia Asset Management LLC**

December 31, 2018

Acacia Asset Management LLC

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This brochure provides information about the qualifications and business practices of Acacia Asset Management LLC (“Acacia”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer, Scott Gordon, at (212) 755-2530 or [scott@acacia.com](mailto:scott@acacia.com).

Acacia is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

## Item 2

**Material Changes**

In August 2017, Acacia filed its initial application to register as an investment adviser with the SEC. As part of its annual filing requirements, this document has been updated as of December 2018 pursuant to disclosure rules under the Advisers Act. This is the second brochure compiled by Acacia to provide new and prospective investors with clearly written, meaningful, current disclosure of its business practices, and conflicts of interest. Acacia encourages all recipients of this brochure to read it carefully in its entirety.

In the future, this Item will identify and discuss the material changes since the last annual update to assist investors and make them aware of certain information that has changed since the prior year's brochure and that may be important to them.

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Item 3

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## Item 4

**Advisory Business**

Established on October 24, 2013, Acacia Asset Management LLC is organized as a limited liability corporation under the laws of the State of Delaware. Acacia is 100% owned by Acacia Group LLC, which is 58% owned by Dean A. Christiansen. These entities were collectively founded by Mr. Christiansen in establishment of Acacia as a new asset management enterprise.

Acacia focuses on investing in U.S. Treasury and Agency securities, and other securities issued by any agency, instrumentality, establishment or government sponsored entity of the U.S. government. Generally, Acacia will look to invest in U.S. Treasury securities, U.S. government-guaranteed securities, U.S. government-backed securities, U.S. agency mortgage backed securities, and loans guaranteed by the Small Business Administration, among other fixed income securities, including use of repurchase and reverse-repurchase agreements (“repo”).

Acacia provides advisory services to a private funding vehicle, organized as a limited liability company. The private funding vehicle serves as a ‘seed capital’ incubator/aggregator prior to the establishment of a series of actively managed exchange-traded funds (the “Incubator Fund”). It is anticipated that each such exchange-traded fund will be organized as an open-end registered investment company under the Investment Company Act of 1940 (the “IC Act”). For clarity, the Incubator Fund is not registered as an investment company under the IC Act.

As of December 31, 2018, Acacia managed \$100 million of assets and met the requirements to be registered as an investment adviser with the SEC.

## Item 5

**Fees and Compensation***General*

Acacia provides investment advisory services to the Incubator Fund pursuant to an investment advisory agreement. Acacia does not currently receive a fee for managing the Incubator Fund. Acacia, however, is permitted to charge fees in the Incubator Fund if agreed to in advance by all investors. Acacia will typically waive any such fees.

The Incubator Fund may incur additional fees outside of Acacia’s investment advisory fees, including, but not limited to, administrative fees, custody fees, transfer agent fees, brokerage commissions and other transaction-related fees, and fees and expenses associated with investments in third-party mutual funds or exchange-traded funds. These fees and expenses are described in the Incubator Fund’s governing documents.

## Item 6

**Performance Based Fees and Side-by-Side Management**

Acacia does not receive performance-based fees.

Acacia endeavors at all times to put the interest of clients first as part of our fiduciary duty as a registered investment adviser. Accordingly, Acacia takes the following steps to address potential conflicts of interest:

- Acacia discloses to clients the existence of all material conflicts of interest.
- Acacia conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to that client's needs and circumstances.
- Acacia has implemented policies and procedures for fair and consistent allocation of investment opportunities among all client accounts.
- Acacia periodically reviews trading frequency and portfolio turnover rates to identify possible patterns of "window dressing," "portfolio churning," or any intent to manipulate trading to boost performance near the reporting period.

Acacia educates our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the fee arrangement.

## Item 7

**Types of Clients**

Acacia currently provides advisory services to a private funding vehicle. There is no investment minimum to invest in the private funding vehicle.

Acacia anticipates providing advisory services to exchange-traded funds to be issued by Acacia Trust.

Acacia does not anticipate providing advisory services to other types of clients.

## Item 8

**Methods of Analysis, Investment Strategies and Risk of Loss*****Investment Analysis and Strategies***

Acacia intends to transact in repurchase agreements and reverse-repurchase agreements, sale agreements, transfer agreements, assignment agreements, administration or management agreements, custodial agreements, repurchase agreements, securities lending agreements or other

agreements for client portfolios. Acacia will manage such transactions with the objective of the preservation of capital. Acacia will seek to mitigate (i) the credit risk of securities held as collateral, (ii) the risk of a financing counterparty default, (iii) interest rate risk, and (iv) the risk related to the market value fluctuation of securities held as collateral. Acacia will maintain internal controls, guidelines, and eligibility requirements addressing financing counterparty credit ratings, exposure limits, risk limitations.

### *Investment Risks*

The following is a discussion of certain risks involved in carrying out Acacia's investment strategies on behalf of the Incubator Fund and does not represent a full accounting of all risks. Investors in the Incubator Fund should review the fund's governing documents to understand all risks and potential conflicts of interest. All investment involves the risk of loss.

- **Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell. Liquidity risk may also apply to collateral held on certain investments. This can reduce a portfolio's returns because the portfolio may be unable to transact at advantageous times or prices.
- **Management Risk:** The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.
- **Counterparty Risk:** A transaction entered into directly with a counterparty is subject to the risk that the counterparty will not settle the transaction in accordance with the agreed terms and conditions. A counterparty may become bankrupt or otherwise fail to perform its obligations due to financial difficulties, resulting in significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding or no recovery in such circumstances.
- **Lack of Operating History:** Although Acacia's investment personnel have prior experience with the instruments anticipated to be purchased for the Incubator Fund, the Incubator Fund has no operating history and no basis upon which an evaluation of its prospects can be made.
- **No Assurance of Returns:** There is no assurance that the Incubator Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. There can be no assurance that the Incubator Fund's investment objectives will be achieved or that there will be any return of capital. Therefore, an investor should only invest if the investor can withstand a total loss of its investment. The past investment performance of the investment person cannot be taken to guarantee future results of any investment in the Incubator Fund.

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- **Fixed Income Securities:** Fixed income securities are subject to interest rate risk and credit risk. Fixed income investments are subject to price fluctuations resulting from various factors, including rising or declining interest rates (interest rate risk). The value of a client account's investments (other than an interest-only class of a collateralized obligation) tends to decrease when interest rates rise and tends to increase when interest rates fall. In addition, investments with longer maturities, which typically provide better yields, may subject an account to increased price changes resulting from market yield fluctuations. The value of fixed income securities is subject to the ability of the issuers of such securities to make payment at maturity (credit risk).
  - **Income Risk:** Acacia's investment income may decline when interest rates fall because of its exposure to short duration securities.
  - **Income Accumulation Risk:** The instruments in which Acacia will invest are expected to pay interest income daily which Acacia will distribute monthly. Accordingly, during each calendar month, income will accrue. On the first day of each month, such interest income will be distributed by Acacia to investors. Acacia's investments may not be appropriate for investors, who, for tax or other reasons, wish to avoid earning income.

## Item 9

### Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or investor's evaluation of the adviser or the integrity of the adviser's management. Neither Acacia nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item.

## Item 10

### Other Financial Industry Activities and Affiliations

Acacia is not affiliated with other financial services companies.

South Street Securities LLC ("South Street"), an unaffiliated registered broker-dealer, will serve as middle and back-office settlement and clearance services provider on a 'hot' or 'cold' basis for the Incubator Fund, and has also entered into a tri-party custody agreement with BNY Mellon, the Incubator Fund's administrator, and the Incubator Fund.

South Street may also, from time to time, be an investor of cash into one or more Acacia's managed funds and/or serve as a repurchase agreement counterparty to Acacia.

Mr. Christiansen is compensated as a contract salesman on behalf of South Street. His compensation by South Street is not affected by his activities at Acacia.

## Item 11

**Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pursuant to Rule 204A-1 under the Advisers Act, Acacia has adopted a written Code of Ethics (the “Code”) predicated on the principal that Acacia owes a fiduciary duty to our clients and investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of Acacia (collectively, the “Employees”), and immediate family members sharing the same household. Acacia requires its Employees to act in clients’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

Employees must have written clearance for transactions involving initial public offerings or limited offerings (i.e., private placements) before completing the transactions. Employees are prohibited from transacting in the purchase then subsequent sale, or sale then subsequent purchase, of the same (or similar) securities, or derivatives thereon, generally purchased by client accounts within 30 calendar days. Such limitation would include other mutual funds, closed-end funds, and/or exchange-traded funds that are similar in nature to Acacia’s investment strategy.

Employees are required to quarterly report personal securities transactions and initially upon employment and annually thereafter all holdings in which the Employee maintains a beneficial interest. Employees are required to promptly report Code violations to the Acacia’s Chief Compliance Officer (“CCO”). Acacia endeavors to maintain current and accurate records of all personal securities accounts of its Employees in an effort to monitor all such activity.

Certain transactions in which Acacia engages may require, for either business or legal reasons that no Employees trade in the subject securities for specified time periods. Such securities will appear on a list (the “Restricted List”) that will be circulated to all Employees. No Employee may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the CCO.

A copy of the Code is available upon request by contacting the CCO listed on the cover page.

## Item 12

**Brokerage Practices*****Best Execution***

Acacia will seek to obtain best execution. Acacia intends to select brokers based upon the broker’s ability to provide best execution for clients. Acacia is generally authorized to make the following determinations, subject to each client’s investment objectives and restrictions, without obtaining prior consent from the relevant client: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for



transactions. The criteria Acacia considers include counterparty risk, the broker-dealer's record of timely and proper delivery of securities and payment for trades and the broker-dealer's expertise in the types of securities traded.

### *Soft Dollars*

Acacia does not participate in any soft dollar arrangements outside of receiving research available to other institutional investors. Research services received from brokers-dealers are supplemental to Acacia's own research effort. To the best of Acacia's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. Acacia does not separately compensate such broker-dealers for the research and does not believe that it "pays-up" for such broker-dealers' services due to the difficulty associated with the broker-dealers not breaking out the costs for such services.

### *Referrals*

Acacia will not consider whether we, or any of our related persons, receive referrals from a broker-dealer before selecting that broker-dealer to execute client transactions.

### *Allocation and Aggregation*

Acacia seeks to allocate investment opportunities that it believes are appropriate for one or more of its clients equitably and consistent with the best interests of all clients involved, in light of each client's general investment strategy and guidelines, including whether the client's investment mandate specifically focuses on the type of investment opportunity presented, and any applicable regulatory considerations, as well as the nature of the investment opportunities. Acacia has adopted policies and procedures designed to ensure the fair and equitable allocation of such opportunities. Generally, Acacia will allocate investment opportunities based on a *pro rata* basis as determined by committed capital, with an allowance for available cash.

### *Cross Trades*

Acacia may use an unaffiliated broker-dealer or custodian to cross investments and/or cash between clients when such a transaction is advantageous for each participant. However, no client accounts subject to ERISA may be included in any cross trade.

## Item 13

### **Review of Accounts**

All clients and their respective investment portfolios are continuously reviewed by Acacia investment personnel. Such review will include a review for compliance with board approved credit investment policies.

Investor's in the Incubator Fund generally receive: (i) audited annual financial statements together with a statement of an investor's capital account and a valuation of the Incubator Fund's portfolio;

and (ii) unaudited quarterly financial statements together with a statement of an investor's capital account and a valuation of the Incubator Fund's portfolio to the extent that there are material differences from the balance sheet.

#### Item 14

### **Client Referrals and Other Compensation**

Acacia does not compensate any person for client referrals nor does it offer or receive sales awards or prizes for providing investment advice to clients.

#### Item 15

### **Custody**

All client assets are held in custody by unaffiliated broker-dealers or banks.

With regards to the Incubator Fund, Acacia may have access to the fund's cash and/or securities since it serves as the fund's managing member. Investors in the fund will not receive statements from the custodian. Instead, the Incubator Fund is subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of fund's fiscal year end.

#### Item 16

### **Investment Discretion**

Acacia has discretionary authority over its clients' accounts pursuant to investment advisory agreement with its clients. Clients give Acacia discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

#### Item 17

### **Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 under the Advisers Act, Acacia has adopted and implemented written policies and procedures governing the voting of client securities. Acacia retains proxy voting authority over all clients.

All proxies, including consent rights of fixed income securities, regarding client securities for which Acacia has authority to vote will, unless Acacia determines in accordance its policies to refrain from voting, be voted in a manner considered by Acacia to be in the best interest of Acacia's clients. The best interest of clients is defined for this purpose as the interest of enhancing or protecting the economic value of client accounts, considered as a group rather than

individually, as Acacia determines in its sole and absolute discretion. Acacia may refrain from voting if doing so would be in the client's best interest. These circumstances may arise, for example, when the expected cost of voting exceeds the expected benefits of voting, (e.g., when exercising the vote results in the imposition of trading or other restrictions). In the event a client believes that its other interests require a different vote, Acacia will vote as the client clearly instructs, provided Acacia receives such instructions in time to act accordingly.

As it pertains to proxy voting, a material conflict of interest is a relationship or activity engaged in by Acacia, an Acacia affiliate, or an Acacia associate that creates an incentive (or appearance thereof) to favor the interests of Acacia, the affiliate, or associate, rather than the clients' interests. For example, Acacia may have a conflict of interest if either Acacia has a significant business relationship with a company that is soliciting a proxy, or if an Acacia associate involved in the proxy voting decision-making process has a significant personal or family relationship with the particular company. A conflict of interest is considered to be "material" to the extent that a reasonable person could expect the conflict to influence Acacia's decision on the particular vote at issue. In all cases where there is deemed to be a material conflict of interest, Acacia will seek to resolve it in the clients' best interests. Acacia seeks to avoid the occurrence of actual or apparent material conflicts of interest in the proxy voting process by voting in accordance with predetermined voting guidelines and observing other procedures that are intended to guard against and manage conflicts of interest.

A copy of Acacia's written proxy voting policies and procedures, as well as a record of how Acacia has voted in the past for the Incubator Fund, will be maintained and available for review upon written request.

Acacia may determine whether clients will participate in a recovery achieve through a class action or opt out of the class action and separately pursue their own remedy. However, Acacia does not generally serve as the lead plaintiff in class actions.

## Item 18

### **Financial Information**

A balance sheet is not required to be provided as Acacia (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.