

Equity Risk Control Group LLC

PART 2A of Form ADV

Brochure

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This brochure provides information about the qualifications and business practices of Equity Risk Control Group LLC ("ERC"). If you have any questions about the contents of this brochure, please contact Mr. John A. Koltes at 312 741 0971. 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 of an investment Adviser does not imply any level of skill or training.

Additional information about ERC is also available on the SEC's website at: www.adviser.sec.gov

Item 2. Material Changes

This is ERC's first brochure; therefore, there are no material changes to the business practices of ERC to be disclosed.

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Note: This Form ADV Part 2A brochure has been prepared on the basis of the facts and circumstances that Equity Risk Control Group LLC expects will apply in January 2020 when the firm intends to commence providing investment management services to third-party clients.

Item 4. Advisory Business

ERC, an Illinois Limited Liability Company, provides investment management services under a rules-based process to institutional equity portfolios seeking risk mitigation. ERC currently serves as the investment manager of one non-institutional related-party portfolio, which began trading on January 2, 2018.

For each client, ERC will act as manager of a separately managed account (“SMA”) using exchange listed equity index and volatility derivatives. All trades in the same underlying index are allocated *pari passu* among SMA clients active at the time a trade is made pursuant to that client’s specific rules (as generally discussed in Item 16. Investment Discretion). ERC’s intention is only to conduct investment and trading activities in accordance with its rules-based process, using specific broad-based equity indices identified by the client. ERC’s rules may be changed with a minimum of 30 days’ notice to each client. Clients may terminate ERC’s investment and trading authority upon actual notice to ERC at any time and assume control over the positions in their SMA. ERC therefore acts very much like an outsourced equity risk management service provider for any portfolio that has equity or equity-like downside market exposure.

ERC can also act as a sub-adviser to certain accounts advised by another investment manager. For example, an investment manager that charges its clients fees based on equity-exposed AUM may hedge its equity-exposed fee-based income by using ERC’s process to mitigate the effects of declining equity index prices and client withdrawals. In addition, an investment manager may allocate funds over which it has investment discretion to an SMA over which ERC is granted authority to conduct its hedging activities as a sub-manager.

ERC’s rules-based process, which provides ERC with limited intraday discretion, uses combinations of spreads in exchange listed index and volatility products. The ratio of the spreads may change based on ERC-predefined volatility levels of the specific broad-based equity index(s) recommended by the client. ERC’s rules-based process is proprietary, and is designed to generate profits during specific ranges of equity dislocations, which over the past 40 years have averaged approximately three times per year.

ERC was co-founded and is principally owned by Donald E. Dale and John A. Koltes. Mr. Dale and Mr. Koltes are senior industry veterans with over 40 years of combined experience in the equity derivatives markets.

As of December 3, 2019, ERC managed \$102900 in a related party account.

Item 5. Fees and Compensation

Management Fee

ERC charges no management fee on a client's SMA assets. ERC receives performance-based compensation (summarized below), which is described in greater detail in the confidential Risk Management Services Agreement ("Services Agreement") entered into with each client.

Performance Allocation

ERC clients are generally subject to a performance allocation (the "Performance Allocation") equal to a portion of the net profits actually realized in the client's SMA. "Net profits" for this purpose means the net income after deduction of all trading related expenses, such as exchange fees, brokerage fees, and clearing fees actually incurred by the client. A Performance Allocation rate of 20% generally applies to each client. ERC additionally may, in its sole discretion, reduce, waive or calculate differently the Performance Allocation with respect to any client including, without limitation, clients that are affiliates of ERC, or one or more clients ("Strategic Investors") that: i) purchase a minimum dollar value equity stake in ERC, and ii) agree to allocate a "Substantial Minimum Dollar Amount" (which amount is determined by ERC in its sole and absolute discretion) to their SMA for ERC to employ its process thereon. A strategic investor will have additional rights that differ from those available to other clients, including the right to participate in ERC's management, advance notice with respect to certain events and information and transparency rights for risk management purposes. A Strategic Investor also receives compensation relating to the Performance Allocation.

Organizational or Operational Expenses

ERC charges none of its organizational or operational expenses to any client.

Side Letters

ERC may from time to time enter into agreements with certain clients that provide for terms that are different from those described in the standard Services Agreement ("side letters"). ERC may, but is not required to, disclose the existence or terms of any such side letters to any other client. ERC intends only to enter side letters that ERC considers to be "non-substantive" (i.e., in no respect substantively advantaging the side letter client over other clients). Examples of "non-substantive" side letters would include, but are not limited to, meeting the individual institutional requirements of the side letter client or agreeing to reductions in the Performance Allocation.

Item 6. Performance-Based Fees and Side-By-Side Management

As stated in “Item 5. Fees and Compensation” above, ERC currently intends to be entitled to receive performance-based compensation from all clients. ERC consequently does not presently face the potential conflict of interest that may arise from differing fee and compensation arrangements among clients.

Item 7. Types of Clients

ERC's clients may include, among others, public pension plans, investment vehicles (e.g. fund of funds), financial institutions, sovereign wealth funds, private sector pension funds, endowments, foundations, asset managers, and high net worth individuals. All investors are required to be "accredited investors" (as defined in Regulation D promulgated under the Securities Act of 1933) or otherwise be permitted to invest under applicable securities laws.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

ERC employs an investment strategy designed to generate meaningful returns during specific ranges of equity dislocations that over the past 40 years have occurred on average three times per year. ERC's hedging process involves exclusive use of exchange listed broad-based equity index and volatility index (VIX) options in specific combinations and quantities based upon one of several different volatility regimes. ERC's goal is to provide institutional equity portfolios with an opportunity to generate revenue in declining markets at a lower cost than buying put spreads themselves.

ERC's process was designed by conducting 18 months of Monte Carlo simulations using historic data in low, medium, high, and ultrahigh market volatility regimes. Based on the results of these Monte Carlo simulations, ERC identified specific ratios of equity index and volatility options applicable to each volatility regime that (in most market environments) efficiently capture profit from downside dislocations while simultaneously being on average less expensive than buying a comparable quantity of put spreads.

ERC's hedging process is not an overlay strategy, a tail risk strategy, or a discretionary volatility strategy. We fall on the spectrum between discretionary volatility strategies and tail risk strategies. ERC suggests that funds allocate up to 5% of their notional equity beta risk exposure to ERC's process. At that level of participation, ERC anticipates the client may be able to add 100 to 200 basis points per year to the client's total return, assuming that three or more meaningful market events, as defined in ERC's Services Agreement, occur during the client's 12-month rolling measurement period.

Risks of ERC's hedging process include, but are not limited to, fast upward moving markets, and slow downward trending markets for 12 months in a row with no commensurate increase in volatility. ERC on average trades approximately four times per month. When ERC trades more frequently than four times per month, the increased trading activity tends to occur in periods of profitability (i.e., in declining markets) or increased losses from the market moving quickly higher.

As noted above, ERC only trades exchange listed equity indices and volatility options. ERC does not trade any stocks or futures. It is a fundamental policy that ERC never carries options into the expiration week, nor does ERC carry net short options with unlimited risk exposure (all short options are hedged with long options or have inherently limited downside risk).

The investment objectives and methods summarized in this brochure represent ERC's current intentions. We do not intend to alter our fundamental strategy; however, we reserve the right to alter the hedging strategy as we believe is necessary to remain competitive.

Item 9. Disciplinary information

ERC has no legal or disciplinary events to report that would be material to a client's or prospective client's evaluation of ERC's advisory business or the integrity of its management.

Item 10. Other Financial Industry Activities and Affiliations

N/A

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

As a fiduciary, ERC owes an undivided duty of loyalty to its clients and thus demands the highest standards of ethical conduct and care by all of its principals and employees (referred to herein as “supervised persons”). It is ERC’s policy that all supervised persons conduct themselves so as to avoid, to the extent possible, not only actual conflict of interest with clients but any conduct that would give rise to the appearance of a conflict of interest that might compromise the trust placed in ERC by its clients. ERC’s policies and procedures have been designed to identify and properly disclose, mitigate and/or eliminate applicable conflicts of interest.

ERC has adopted a Code of Ethics that sets the standards of ethical and business conduct expected of ERC’s supervised persons and addresses conflicts that may arise from personal trading by ERC’s supervised persons. The Code of Ethics, among other things, requires compliance with the federal securities laws, reflects ERC’s fiduciary responsibilities and those of its advisory personnel, prohibits certain personal securities transactions and requires ERC’s supervised persons to periodically report and/or preclear certain personal securities transactions.

The Code of Ethics will be provided to any client or potential client upon request.

Personal Trading

ERC’s supervised persons are permitted to invest in their personal trading accounts, subject to certain restrictions, and may in certain circumstances invest in the same or related securities as ERC recommends to clients, including doing so at or about the same time as client transactions are effected. In order to reduce certain conflicts of interest that may arise between client accounts and the personal trading activity of ERC’s supervised person, ERC has adopted a personal trading policy (contained in the Code of Ethics). The personal trading policy, among other things, requires clearance of certain transactions and reporting of all transactions in holdings of “reportable securities.” Furthermore, other than is allowed for in certain limited circumstances, ERC personnel are generally prohibited from entering into transactions with respect to securities in which clients are currently invested or may expect to be invested in the next 30 days.

Co-Investments

ERC’s principal and employees may coinvest with clients in certain limited situations. ERC’s personnel may invest in ERC’s process in an SMA specifically established for ERC personnel. This SMA will be treated in all respects identically with client accounts; the only exception being ERC may determine to charge the ERC-personnel SMA a different Performance Allocation than is generally available to other clients. Because all trades are allocated *pari passu* among active clients, including potentially the ERC-personnel SMA, the only potential conflict is if ERC’s positions consume all available liquidity. In such case the ERC-employee SMA will not be permitted to participate in any trades until ERC deems the liquidity to be adequate to meet all client trades before the ERC-personnel SMA may participate in any investment.

Item 12. Brokerage Practices

Best Execution

ERC is authorized to select the broker-dealers to be used for portfolio transactions for clients SMA. In placing portfolio transactions, ERC will seek to obtain the best execution, taking into account the following factors: the ability to affect proper and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are affected, taking into account the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk and positioning block positions; equality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying ERC's other selection criteria. In addition, subject to ERC's obligation to seek best execution, ERC may consider client referrals in selecting brokers.

Soft Dollar Benefits

ERC is authorized to use "soft dollars" generated by its SMA trading activities to pay for certain research and research related services within the "safe harbor" provided by Section 28 (e) of the Securities Exchange Act of 1934. However, ERC currently has no soft dollar arrangements and does *not* expect to use soft dollars in the near future.

Allocation of Investment Opportunities

As noted above (in Item 4. Advisory Business) ERC's risk management process allocates all trades in the same underlying index to client accounts *pari passu*; therefore, absent unique circumstances such as trading a unique or special purpose hedge strategy as an accommodation for a Strategic Investor, or when clients use different underlying indices, ERC uses the same objective, philosophy and strategy with respect to each client's SMA.

Trade Errors

ERC may from time to time make trade errors, defined as errors in implementing specific trades that ERC determines to make. Trade errors can result from clerical mistakes, miscommunications between ERC personnel and other reasons. ERC determines whether the costs arising from trade errors will be borne by the client or ERC by applying the pertinent contract's standard of liability applicable to ERC in its management of the SMA. ERC, accordingly, will be obligated to reimburse a client's SMA for any trade error resulting from ERC's willful misconduct, gross negligence, bad faith or fraud, and not otherwise.

ERC will itself determine in good faith whether or not a given trade error is required to be reimbursed under the general liability and exculpation standards applicable to each SMA. ERC will have a conflict of interest in determining both whether a trade error has occurred and whether a trade error should be for the account of the SMA or ERC. ERC will attempt to resolve such conflict by an objective determination of the status of the trade error under the applicable liability standard. Any gain recognized on a trade error will be for the benefit of the pertinent SMA; none will be retained by ERC.

Item 13. Review of Accounts

Review of Accounts

ERC will review each SMA's portfolio holdings to determine that the investments held by the SMA remain consistent with the applicable agreement and will generally review the SMA's performance on a continuous basis

Reports to Clients

Each client may request copies of client's Monthly Statements that ERC actually receives from client's Broker, Prime Broker, Clearing Firm and/or Custodian. Each client will receive news and opinion letters that ERC may draft from time to time.

Item 14. Client Referrals and Other Compensation

ERC expects one or more affiliates of any Strategic Investor to be involved in the introduction of potential clients to ERC. ERC also may enter into agreements with individuals and entities for the purpose of educating potential clients about ERC's hedging process. Any compensation to individuals or entities whose recommendations result in clients establishing and funding an ERC managed, or sub-managed, SMA is paid by ERC (not the client).

Item 15. Custody

ERC does not have custody of any assets in the client's SMA. Custody of all SMA assets remains in the client's possession and control. ERC expects the client to establish an SMA at its preferred prime broker where clearing and custody arrangements are under the control of the client.

Item 16. Investment Discretion

Subject to ERC's proprietary rules-based process and the obligation of each client to identify to ERC: i) the exchange listed broad-based equity index product(s) the client wishes ERC to use, ii) the beta adjusted notional equity value of each broad-based index, and iii) whether the client wishes ERC or the client to decide when to terminate and monetize all positions in the SMA, ERC has full discretion in all remaining investment decisions made on behalf of an SMA. ERC may make investment decisions, without consultation with the client, regarding which securities are bought and sold, the total amount of the securities to be bought and sold, the broker-dealers with whom orders are placed for execution, and the commission rates at which securities transactions are effected. ERC's discretionary authority is granted by the client in the Services Agreement or other pertinent documentation.

The decision to terminate ERC's risk reduction process lies exclusively with the client establishing the SMA; however, if a client has delegated that responsibility to ERC under the Services Agreement or other pertinent document, then ERC will terminate that client's risk reduction process using ERC's best judgement. Otherwise, ERC will act according to its rules set in determining when to enter, increase, or decrease risk reduction positions down to that client's initial SMA allocation.

Item 17. Voting Client Securities

ERC does not have, and will not accept, authority to vote client securities.

Item 18. Financial Information

ERC is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and ERC has not been the subject of a bankruptcy petition.