

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**HIGHCREST CAPITAL, LLC**

**MARCH 29, 2019**

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**Highcrest Capital, LLC**

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*This brochure ("Brochure") provides information about the qualifications and business practices of Highcrest Capital, LLC. If you have any questions about the contents of this brochure, please contact us at (646) 831 – 5742 or [jbourtin@highcrestcapital.com](mailto:jbourtin@highcrestcapital.com). 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.*

*Additional information about Highcrest Capital, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

## **ITEM 2**

### **MATERIAL CHANGES**

Highcrest Capital, LLC (together with its affiliates and related persons, the "Investment Adviser" or the "Firm") has not made any material changes to this Brochure, as this is the Firm's initial Brochure.

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#### **ITEM 4**

#### **ADVISORY BUSINESS**

The Investment Adviser offers investment advisory services to privately placed pooled investment vehicles and separately managed accounts. The Investment Adviser currently provides investment advisory services to a private investment fund, Highcrest Private Credit Income Fund, L.P.(the “Fund”) and separately managed accounts (the Fund and the separately managed accounts are collectively referred to herein, along with any future funds, as “Clients”). The Investment Adviser mainly focuses its investment strategies on credit and real estate based investment opportunities. The Investment Adviser was formed in 2014 by its sole owner, J.P. Bourtin, who also serves as the Chief Executive Officer.

The Fund was organized in September, 2014 as a Delaware limited partnership and pursues a credit focused strategy that seeks to invest in a broadly diversified portfolio of short-term loans made to quality small businesses with the goal of generating consistent cash income. The Firm also acts as the general partner to the Fund. The Firm does not presently offer wrap fee programs.

As of December 31, 2018, the Investment Adviser had approximately \$209,485,045 in discretionary assets under management and \$0 in non-discretionary assets. Total assets under management were approximately \$ 209,485,045.

## ITEM 5 FEES AND COMPENSATION

### Fees and Expenses

Fees and expenses applicable to separately managed account Clients are individually negotiated and memorialized in such Client's investment management agreement ("IMA"). Circumstances considered when negotiating fees may include, without limitation, customary market rates, specialized guidelines, and other performance/incentive fee arrangements with the Client. Fees and expenses generally applicable to Fund investors are as follows.

#### Management Fee

Investors in Class A interests of the Fund bear a management fee (the "Management Fee"), payable quarterly in advance, equal to 0.1666% (a 2% annual rate) of the investor's gross asset amount as of the first day of the month. The Management Fee will be prorated for any capital contribution or withdrawal by an investor that is effective other than as of the first day of a month.

#### Performance Allocation

Clients and investors meeting the definition of "Qualified Client" may be charged a performance allocation. A Qualified Client is defined in SEC Rule 205-3 under The Investment Advisers Act of 1940 (the "Advisers Act"), as follows: "*A natural person who, or a company that... has at least \$1,000,000 under the management of the investment adviser*" or "*A natural person who, or a company that, the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, either: a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,100,000...*"<sup>1</sup>. Generally, Class A interests of the Fund are subject to an performance allocation (the "Performance Allocation") in the amount of 20% of each investor's ratable share of the Fund's net profits for such month, subject to a high water mark.

In the event that the Fund is terminated or an investor withdraws other than at the end of a fiscal year, then for purposes of determining the Performance Allocation allocable at such time to the Investment Adviser or its affiliates, net profits will be determined as if such dates were the end of the fiscal month, subject to certain adjustments. The Investment Adviser may waive, reduce or calculate differently the Management Fee or Performance Allocation with respect to certain investors. The Firm's receipt of a Performance Allocation is intended to align the Firm's interests with those of its Clients, and

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<sup>1</sup> For purposes of calculating a natural person's net worth: (1) The person's primary residence must not be included as an asset; (2) Indebtedness secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time the investment advisory contract is entered into may not be included as a liability (except that if the amount of such indebtedness outstanding at the time of calculation exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess must be included as a liability); and (3) Indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the residence must be included as a liability.

to provide the Firm with a greater incentive to manage assets well. Such fees will be structured and charged in a manner consistent with the requirements of applicable law. The nature of the performance based fees, however, creates potential conflicts of interest among the Firm, its associated persons, and Clients.

In addition, as the Firm intends to manage accounts from which it collects performance based fees and may also manage accounts from which it does not collect performance based fees, the Firm has an incentive to favor accounts for which it receives performance based fees because it will receive a greater profit from the accounts which are charged performance based fees. Therefore, the Firm has an incentive to allocate investments that are expected to be more profitable to accounts from which it collects performance based fees, on the one hand, and that are riskier on the other hand, since in both scenarios, the Firm may receive greater fees if the investment generates a positive return. Notwithstanding the foregoing, the Firm does not favor accounts that pay performance based fees.

#### Additional Fees and Expenses

The Fund bears its own expenses including, without limitation, investment-related expenses (*e.g.*, brokerage commissions, research-related expenses (including, news and quotation equipment and services, expenses associated with attending consumer and/or retail conferences and seminars and travel, lodging and other expenses incurred in connection with meeting members of management of existing or prospective investment targets), clearing and settlement charges, custodial fees, interest expenses, expenses relating to consultants, attorneys, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments, appraisal fees and expenses and investment banking expenses), computer hardware and software and related technology services (including hardware and software used to route trade orders and hardware and software relating to internal portfolio systems) and expenses associated with installing computers, cable and telephone lines and equipment, investment-related travel expenses, legal expenses, accounting, audit, tax preparation and other tax-related expenses (including preparation costs of financial statements, tax returns and reports to investors), expenses relating to obtaining liability insurance for directors and officers, the Investment Adviser, its affiliates and their respective partners and members, entity-level taxes, organizational expenses, printing and mailing costs, expenses relating to the offer and sale of interests (including travel and other expenses related to meetings with prospective investors), the Management Fee, administration fees and related costs (including fees to the administrator), extraordinary expenses and other expenses associated with the operation of the Fund, as determined by the general partner of the Fund. The general partner will work to limit Fund expenses, excluding Management Fees, to 1% on an annual basis or 0.0833% per month. In the event expenses of the Fund exceed this limitation in any calendar month, the general partner may elect to pay such expenses out of its Management Fee and/or Performance Allocation. However, to the extent the general partner pays expenses of the Fund pursuant to this expense limitation, the general partner may continue to charge the Fund 0.0833% per month for expenses in future months (even if the actual expenses for that month are less than 0.0833%) until the general partner has recovered from the Fund all expenses previously borne by the general partner.

The Firm does permit Clients to pay fees in advance, but in no event shall such fees be paid in excess of six months in advance and exceed \$500.

Fund investors are permitted to make withdrawals of any or all of their capital, in addition to the regular monthly distributions described above, as of the close of business on the last day of each calendar month, provided the withdrawing investor notifies the general partner not less than 35 days in advance of the applicable withdrawal date of its intent to make a withdrawal. The general partner expects in normal circumstances that payments for withdrawals will generally be made within 30 days of the effective withdrawal date; however, if sufficient cash is not available to accommodate all withdrawal requests, the general partner will allocate a pro rata share of cash available for withdrawals to each Fund investor requesting a withdrawal until the withdrawal requests are paid in full.

Separately managed account Clients may terminate the IMA in accordance with the terms of such IMA.

Additional Compensation of Supervised Persons: Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

As described above, Class A interests of the Fund are subject to an Performance Allocation in the amount of 20% of each investor's ratable share of the Fund's net profits for such month, subject to a high water mark.

Consistent with its fiduciary duty to its Clients, the Investment Adviser allocates investment opportunities equitably among its Clients taking into account such factors as relative amounts of capital available for new investments, relative exposure to market trends, and the investment programs and portfolio positions of the Clients for which participation is appropriate.

The terms of performance based compensation may differ in the future among new Clients. This may result in a conflict of interest when the Firm allocates opportunities among such Clients because there will be an incentive to favor allocations to Clients that have higher performance-based fees and allocations. To avoid such a conflict of interest, the Firm generally follows documented procedures in allocating opportunities among its Clients which do not consider the performance based fees and allocations to which such Clients are subject.



**ITEM 7**  
**TYPES OF CLIENTS**

As described above, the Investment Adviser offers investment advice to privately placed pooled investment vehicles as well as separately managed accounts.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### Methods of Analysis and Investment Strategies

The Investment Adviser's investment objective for the Fund is to seek monthly ordinary taxable cash income, net of expenses and fees, of 7% to 9% on a long-term annualized basis. The Investment Adviser seeks to achieve this objective by investing in commercial loans, revolving lines of credit, purchased receivables, or other debt obligations (collectively the "*Notes*") originated, arranged, or owned by various lending institutions.

The descriptions set forth in this Brochure of specific advisory services that the Investment Adviser offers to clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

#### Material, Significant, or Unusual Risks Relating to Investment Strategies.

Limited Diversification. Other than cash investments, the Fund will invest primarily in short-term Notes. Accordingly, the Fund's portfolio will not be diversified beyond Notes and cash investments. Therefore, the Fund's portfolio may be subject to more risk than would be the case if the Fund maintained a wider diversification among types of loans, promissory notes or other debt obligations with greater variation in maturities.

Limited Number of Notes to Purchase. A number of lending institutions report that there could be greater demand for Notes generated by lending institutions than there are qualified borrowers. Therefore, at times there could be a limited number of Notes available for investment, which could impair the Fund's ability to invest its capital in Notes. To the extent the Fund is unable to invest its capital in Notes, such capital will be held in bank deposits or money market accounts that generate far lower rates of return than Notes, which will depress the return to a Client. To date, the Investment Adviser has managed this risk by delaying the acceptance of new investments from some investors or Client's until it is confident it can deploy the capital, and by actively searching for new lending institutions with which it can work.

Dependence on Certain Lending Institutions. The Investment Adviser does not have the infrastructure to source or service Notes on its own, and is dependent on other lending institutions to source Notes, conduct appropriate due diligence and service the Notes. The Fund may be unable to fulfill its investment strategy if the lending institutions with which the Fund has relationships were to dissolve, liquidate, become bankrupt or otherwise cease operations or change their businesses and cease sourcing Notes. Furthermore, the lending institutions do not have a legal obligation to allow the Fund to invest in Notes. A number of lending institutions report that there could be greater demand for Notes generated by lending institutions than there are qualified borrowers. As a result, some lending

institutions have entered into agreements with certain investors which give them preferred investor status. At present, the Fund intends to be the beneficiary of these types of agreements, but there is no guarantee that such agreements will occur or remain in place, and the refusal or termination of any such agreements could impair the Fund's ability to invest its assets in quality Notes. In addition, the competition for Notes may reduce the overall interest rates paid on Notes, which could hurt the Fund's investment returns.

Investment in Aggregated Pool of Notes; Exposure to Wide Variance in Risk Environments. Notwithstanding the admission of an investor at the beginning of a month (or an increase in the capital contribution of an existing investor at the beginning of a month), such investor will be investing through the Fund in any existing investments held by the Fund at the time of such admission that may have been acquired with other previously admitted investor's capital contributions, as well as any additional investments acquired by the Fund thereafter, whether from such Fund's new capital contributions (or increases) or from other investor's later capital contributions. Thus, an investor will have exposure to investments acquired over a wide range of financial market conditions and risk environments, as well over periods of time that pre-date the month in which such investor was admitted to the Fund (or made additional capital contributions to the Fund). Thus, an investor may have exposure to investments acquired when market conditions and perceived or actual risks as well as default rates were significantly different than in effect on the date of such investor's admission to the Fund (or increase in capital contributions to the Fund).

Prepayment and Reinvestment Risk. A borrower prepays a Note when a borrower decides to pay some or all of the principal amount on a Note earlier than originally scheduled. Borrowers may decide to prepay all or a portion of the remaining principal amount at any time, and no interest will be earned on the Note after it is prepaid. However, some but not all Notes might contain prepayment or guarantee fees which compensate the Fund for the loss in interest income when the Note is prepaid. If a borrower prepays a portion of the remaining unpaid principal balance on a Note, the term of the Note will not change, but interest will cease to accrue on the prepaid portion. If many borrowers decide to prepay Notes in which the Fund is invested, the Fund may not be able to find a similar rate of return on another investment, which could impair investment returns.

Non-U.S. Investments. The Investment Adviser may cause its Clients to invest in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, gross sale or disposition proceeds or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Clients' investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a

result, Clients may be unable to structure their transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce Clients' rights in such markets.

Leverage and Borrowing Risks. The Investment Adviser has the power to borrow funds on behalf of its Clients and may do so to enhance Client returns and meet withdrawals that would otherwise result in the premature liquidation of investments. Clients may borrow funds from brokers, banks and other lenders to finance its trading operations. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolios may be subject. Such leverage, which may be substantial, may be achieved through, among other methods, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements, swaps and other financial instruments that are inherently leveraged. The access to capital could be impaired by many factors, including market forces or regulatory changes.

Loans of Portfolio Securities. The Investment Adviser may cause Clients to lend their portfolio securities. By doing so, the Investment Adviser attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, Clients could experience delays in recovering the loaned securities. To the extent that the value of the securities the Client lent has increased, the Client could experience a loss if such securities are not recovered.

Valuation. In cases where a Client originates or purchases Notes, the Firm will generally value those assets at the remaining principal balance for those Notes performing according to their amortization schedule. The value of Notes for which payments have deviated from their original amortization schedule will be re-valued, in the Firm sole discretion, taking into account the significance of the deviation and the historical performance of Notes with similarly situated borrowers. The valuation of these assets and liabilities is based on the Firm's policies and procedures (as revised from time to time). There is no reliable liquid market for the Notes, so the valuations of a Client's pool of Notes are imprecise and subject to inherent conflicts of interest. The Firm's valuation of these assets affects the Management Fees and Performance Allocation to which the Firm or general partner is entitled. If those valuations are inaccurate, any new investor and any withdrawing investor may be adversely affected and the Firm or general partner might receive a Management Fee and Performance Allocation that are greater than the fees and allocations to which it otherwise would be entitled. The Firm or general partner may not be able to effectively manage a Client's investment portfolio, diversification and other internal guidelines and risks if the Client's portfolio is inaccurately valued. Any such inaccuracy could affect a Client adversely.

Hedging Transactions. The Investment Adviser may utilize financial instruments such as forward contracts, currency options and interest rate swaps, caps and floors to seek to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates and market interest rates. The Investment Adviser may also utilize securities, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Clients' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Clients' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in a Client's portfolio; (v) hedge against a directional trade; (vi) hedge the

interest rate, credit or currency exchange rate on any of the Clients' securities; (vii) protect against any increase in the price of any securities a Client anticipates purchasing at a later date; or (viii) act for any other reason that the Investment Adviser deems appropriate. Clients will not be required to hedge any particular risk in connection with a particular transaction or a portfolio generally. While Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Client than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that may not be hedged. The success of the Investment Adviser's hedging transactions is subject to the Investment Adviser's ability correctly to predict movements in the direction of currency and interest rates.

Trading Decisions Based on Fundamental and Other Analysis. Trading decisions made by the Investment Adviser are based on fundamental, technical and other analysis. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernable trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many advisors' trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated. No assurance can be given that the Clients' strategies will be successful under all or any market conditions.

#### Risks Associated With Particular Types of Securities.

Less Liquid Instruments. Liquidity is important to the Investment Adviser's business. Under certain market conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of the Clients' relatively liquid portfolio positions may be reduced. During such times, Clients may be unable to dispose of certain assets, which would adversely affect a Client's ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force Clients to dispose of assets at reduced prices, thereby adversely affecting the Clients' performance. If there are other market participants seeking to dispose of similar assets at the same time, Clients may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if Clients incur substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In conjunction with a market downturn, Clients' counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Clients' credit risk to them. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity may be reduced for the Clients' non-U.S. investments.

Convertible Securities. Clients may invest in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique

investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Clients is called for redemption, Clients will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Clients' ability to achieve their investment objective.

Fixed Income Securities. Clients may invest in bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities; and commercial paper, some of which may have speculative characteristics. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Client invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities 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.

Speculative Nature of Notes. The Notes in which Clients may invest are risky and speculative investments. The Notes are often secured obligations of small business owners; however, there is no assurance that the collateral and any guarantees that secure the Notes will be sufficient to obtain full payment of any Note in the event the borrower defaults. Accordingly, a Client may lose the entire amount of its investment in the Notes in which it invests.

Dependence on Payments on Borrower Loans. Lending institutions only act as a servicer of the Notes in which a Client may invest, and do not have any obligation to pay the Notes. Lending institutions will only forward or credit to a Client's payments on a Note after it receives that payment, net of its servicing fees and net of any collection fees and costs it incurs.

False Information Supplied by Borrowers. Borrowers supply a variety of information regarding the purpose of a loan, income, occupation, and employment status in the form of a standard loan application. Lending institutions report that they utilize various automated and manual methods to verify some of the information included in the loan application, but this information may be inaccurate or intentionally false. A lending institution's borrowers may misrepresent their intentions for the use of Note proceeds. Lending institutions generally do not take steps to verify any statements by the lending institution's borrowers as to how loan proceeds are to be used. A lending institution's borrowers may supply inaccurate or intentionally false documents and statements in

association with the loan application they submit to the lending institution, and the nature of the borrower's misrepresentations may be hard for the lending institution or a Client to detect prior to a default by the borrower. The Client does not generally take any steps to verify any loan information, and relies on the steps and processes taken by the lending institution. To the extent a Client relies on false, misleading or unverified information supplied by borrowers in deciding to invest in Notes, such Client may lose all or part of its investment.

Cybersecurity Risks. The Investment Adviser's information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by its professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Investment Adviser has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Investment Adviser may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Firm's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to Clients (and the beneficial owners of the Clients). Such a failure could harm the Investment Adviser's reputation or subject it or its affiliates to legal claims and otherwise affect their business and financial performance. Additionally, any failure of the Investment Adviser's information, technology or security systems could have an adverse impact on its ability to manage Client accounts referred to herein.

*The foregoing risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.*

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that it believes are material to a Client's or prospective Client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management. However, on or about July, 2012, an employee of the Investment Adviser, Sloan Gunter (CRD# 1602949) was sanctioned by FINRA in connection with activities undertaken prior to his employment with the Investment Adviser that were in violation of FINRA Rules. FINRA alleged, among other things, that Mr. Gunter failed to properly disclose to the firm at which he was employed that he was engaged in outside business activities. Mr. Gunter also consented to sanctions and the entry of findings regarding these allegations as well as violations in the administration of state insurance exam classes. Without admitting or denying FINRA's findings in this case, Mr. Gunter consented to a term of suspension from association with a FINRA member. For more information, please see the following: <https://brokercheck.finra.org/individual/summary/1602949>



## **ITEM 10**

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

#### Broker-Dealer Registration Status

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

#### Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status

The Investment Adviser is currently registered as a commodity trading advisor with the National Futures Association (NFA ID: 0345624). However, neither the Investment Adviser nor its supervised persons are currently registered, nor do they have any application to register, as a futures commission merchant, commodity pool operator, or associated persons thereof.

#### Material Relationships or Arrangements with Industry Participants

Neither the Firm nor its management persons have a relationship or arrangement that is material to the advisory services offered to Clients with regard to the following entities.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund).
3. Other investment adviser or financial planner.
4. Futures commission merchant, commodity pool operator, or commodity trading advisor.
5. Banking or thrift institution.
6. Accountant or accounting firm.
7. Lawyer or law firm.
8. Insurance company or agency.
9. Pension consultant.
10. Real estate broker or dealer.

#### Material Conflicts of Interest Relating to Other Investment Advisers

The Investment Adviser does not recommend or select other investment advisers for its Clients.

## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### Code of Ethics

The Investment Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Investment Adviser has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of the Fund, including its investors, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

Clients may request a copy of the Code by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

#### Securities That You or a Related Person Has a Material Financial Interest

##### **Cross Trades**

The Investment Adviser may determine that it would be in the best interests of certain Clients to transfer a security from one Client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the clients, or to reduce transaction costs that may arise in an open market transaction. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each Client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Clients.

The Investment Adviser generally executes Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two Clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the Clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation

policy. If the Investment Adviser effects an internal cross trade, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

### **Principal Transactions**

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a Client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a Client and approved or disapproved by (i) an advisory board comprised of representatives of such investors; (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations; or (iii) investors in the relevant Clients.

### **Investing in Securities That You or a Related Person Recommends to Clients.**

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, the Investment Adviser's employees may not engage in personal securities trading and may only dispose of securities held in their respective personal trading accounts. Any such disposition of securities must be pre-cleared. However, employees may purchase and sell mutual funds and broad-based exchange-traded funds ("ETFs"). Some clients may invest in the same or similar mutual funds and ETFs.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

### **Conflicts of Interest Created by Contemporaneous Trading**

The Investment Adviser manages investments on behalf of a number of Clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Investment Adviser to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. As described above, the Investment Adviser allocates investment opportunities among the Clients equitably, consistent with its allocation policies.

## **ITEM 12**

### **BROKERAGE PRACTICES**

#### Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

In placing orders to purchase and sell securities for Clients, the Investment Adviser considers a number of factors in selecting appropriate broker-dealers, including execution capability, commission rates, financial responsibility, the value of research provided, and responsiveness to the Investment Adviser and its Clients. In order to ensure best execution, the Investment Adviser has established a Compliance Committee. The Compliance Committee meets on a periodic basis, which will be no less frequently than quarterly, and is responsible for developing, evaluating and changing when necessary the Investment Adviser's order execution practices. The Compliance Committee will monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Investment Adviser and the Clients.

The Investment Adviser will place trades for execution only with approved brokers or dealers. The factors to be considered in selecting and approving brokers-dealers that may be used to execute trades for Client accounts include, but are not limited to:

- Quality of execution - accurate and timely execution, clearance and error/dispute resolution
- Reputation, financial strength and stability
- Block trading and block positioning capabilities
- Willingness to execute difficult transactions
- Willingness and ability to commit capital
- Access to underwritten offerings and secondary markets
- Ongoing reliability
- Overall costs of a trade (*i.e.*, net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the Firm's knowledge of negotiated commission rates currently available and other current transaction costs
- Nature of the security and the available market makers
- Desired timing of the transaction and size of trade
- Confidentiality of trading activity
- Market intelligence regarding trading activity
- The receipt of brokerage or research services

## **Research and Other Soft Dollar Benefits**

Portfolio transactions for the Clients will be allocated to brokers on the basis of best execution and in consideration of a broker's ability to effect the transactions, its facilities, reliability and financial responsibility and the provision or payment by the broker of the costs of research and research-related services which are of benefit to the Investment Advisers and its Clients. Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to the Clients by brokers in the foregoing circumstances may be higher than those charged by other brokers who may not offer such services. The use of commission or "soft" dollars (or dealer markups and markdowns arising in connection with riskless principal transactions) for research and research-related services will come within the safe harbor for the use of soft dollars provided under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more Client may be used by the Investment Adviser to service one or more other Clients, including Clients that may not have paid for the soft dollar benefits. The Investment Adviser does not seek to allocate soft dollar benefits to the Clients in proportion to the soft dollar credits they generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser (i.e., a "mixed use" item), the Investment Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Investment Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit the Clients.

When the Investment Adviser uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Investment Adviser receives a benefit because it does not have to produce or pay for such products or services. The Investment Adviser may have an incentive to select or recommend a broker-dealer based on the Investment Adviser's interest in receiving research or other products or services, rather than on its Clients' interest in receiving most favorable execution.

Within the last fiscal year, the Investment Adviser or its related persons acquired the following types of products and services with Client brokerage commissions (or markups or markdowns): research and research-related services, services with respect to trading, operations, and technology, and periodic access to company management.

Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

## **Brokerage for Client Referrals**

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser may consider, among other things, capital introduction and marketing assistance with respect to potential Clients in selecting or recommending broker-dealers.

## **Directed Brokerage**

The Investment Adviser does not recommend, request or require that a Client direct the Investment Adviser to execute transactions through a specified broker-dealer.

## **Order Aggregation.**

Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more Clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for the Investment Adviser generally arise when more than one Client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. The Investment Adviser is not required to aggregate Client trades, however, it will generally do so, subject to best execution. When aggregating orders, the Investment Adviser must treat all Clients in a fair and equitable manner. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Investment Adviser. As a result, certain trades in the same security for one Client (including a Client in which the Investment Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

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

The Investment Adviser performs various ongoing reviews and analyses of Client portfolios and investments. Such reviews are conducted by the relevant personnel on a case by case basis.

The Investment Adviser generally provides annual audited financial statements to investors in the Fund within 120 days of the Fund's fiscal year end. Additionally, investors in the Fund, receive monthly capital account statements from its independent administrator or the Investment Adviser, as well as monthly, quarterly or annual portfolio statistics summaries, and quarterly letters from the Investment Adviser.

With regard to separately managed account Client's, such Client accounts are reviewed, at least on a monthly basis to assure conformity with the Client's objectives and guidelines. In addition, separately managed account Client accounts are reviewed in light of emerging trends and developments as well as market volatility. Such Clients are responsible for keeping the Firm informed as to any changes in their financial condition. The Firm cannot make any material changes to a separately managed account Client's portfolio if it is not informed of such Client's particular developments. Monthly, quarterly and/or annual reports covering a separately managed account Client's holdings and activity will be provided by such Client's custodian firm or the Investment Adviser. These reports, including trade confirmations and/or monthly statements, will typically identify the account holdings and a current valuation of such holdings. The Firm will be available to assist any Client in reviewing and understanding such reports.

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

The Firm does not receive any economic benefit associated with advising Clients, such as sales awards or prizes. The Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce Clients to the Firm, provided that any such fee or commission will be paid solely by the Firm or its affiliates and no portion thereof will be paid by Clients. The Firm may use independent third party solicitors to refer Clients and pay a portion of its advisory fees to such solicitors, in accordance with the Advisers Act.



## **ITEM 15 CUSTODY**

The Investment Adviser is deemed to have custody of Fund assets and securities because it has the authority to obtain Fund assets or securities, for example, by deducting advisory fees from the Fund's account or otherwise withdrawing assets from the Fund's account. The Investment Adviser does not have custody of separately managed account Client assets or funds that it may sub-advise. Account statements related to the Clients are sent by qualified custodians or the Investment Adviser.

The Investment Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to the Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

The Investment Adviser has discretionary trading authority with respect to its Clients.

The Investment Adviser's investment decisions and advice with respect to each Client are subject to each Client's investment objectives and guidelines, as set forth in its offering documents or IMA.

The Investment Adviser or an affiliate of the Investment Adviser entered into an IMA, or similar agreement, with each Client, pursuant to which the Investment Adviser or an affiliate of the Investment Adviser was granted discretionary trading authority.

## ITEM 17 VOTING CLIENT SECURITIES

The Investment Adviser has authority to vote proxies on behalf of the Fund. The Investment Adviser, generally, does not accept authority to vote proxies on behalf of separately managed account Clients, but may agree to do so at the sole discretion of the Investment Adviser and memorialize such agreement in the Client's IMA.

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures with respect to Clients for whom the Investment Adviser has accepted proxy voting authority. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with each Client's investment objectives.

The Investment Adviser may take into account all relevant factors, as determined by the Investment Adviser in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where the Investment Adviser believes that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its Clients. Generally, Clients may not direct the Investment Adviser's vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Clients on the one hand and the Investment Adviser or its affiliates on the other hand. If the Investment Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Investment Adviser will vote in accordance with its Proxy voting policies and procedures. Clients may obtain a copy of the Investment Adviser's Proxy voting policies and its Proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.