

## **Form ADV Part 2A – Brochure**

### **Item 1 – Cover Page**

## **Safkhet Capital Management, LLC**

**Effective: March 2019**

This brochure provides information about the qualifications and business practices of Safkhet Capital Management, LLC (“Safkhet”). If you have any questions about the contents of this Brochure, please contact us by email at [info@safkhetcapital.com](mailto:info@safkhetcapital.com) or by telephone at 212-313-6877.

Safkhet is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. This brochure provides information about Safkhet to assist you in determining whether to retain Safkhet.

Additional information about Safkhet is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching for our firm name or by our CRD #291878.

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## Item 2 – Material Changes

Form ADV 2 is divided into two parts: *Part 2A (the "Brochure")* and *Part 2B (the "Brochure Supplement")*. The Brochure provides information about a variety of topics relating to Safkhet's business practices and conflicts of interest. The Brochure Supplement provides information about advisory personnel of Safkhet.

### Material Changes

The material change since Safkhet's previous amended filing of the Brochure with the SEC in September 2018 is:

- Item 4: As of January 31, 2019, Safkhet manages approximately \$77.1M on a discretionary basis and \$0 on a non-discretionary basis.

### Future Changes

From time to time, we may amend this Brochure to reflect changes in our business practices, changes in regulations and routine annual updates as required by the securities regulators.

At any time, you may view the current Brochure on-line at the SEC's Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching for our firm name or by our CRD #291878. You may also request a copy of this Brochure at any time, by contacting us by email at [info@safkhetcapital.com](mailto:info@safkhetcapital.com) or by telephone at 212-313-6877.

**Item 3 – Table of Contents**

PART 2A.

<b>Item 1 – Cover Page.....</b>	<b>1</b>
<b>Item 2 – Material Changes .....</b>	<b>2</b>
<b>Item 3 – Table of Contents .....</b>	<b>3</b>
<b>Item 4 – Advisory Business .....</b>	<b>4</b>
<b>Item 5 – Fees and Compensation.....</b>	<b>6</b>
<b>Item 6 – Performance-Based Fees and Side-By-Side Management .....</b>	<b>7</b>
<b>Item 7 – Types of Clients.....</b>	<b>8</b>
<b>Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>9</b>
<b>Item 9 – Disciplinary Information.....</b>	<b>17</b>
<b>Item 10 – Other Financial Industry Activities and Affiliations.....</b>	<b>18</b>
<b>Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>19</b>
<b>Item 12 – Brokerage Practices .....</b>	<b>21</b>
<b>Item 13 – Review of Accounts.....</b>	<b>22</b>
<b>Item 14 - Client Referrals and Other Compensation .....</b>	<b>22</b>
<b>Item 15 – Custody .....</b>	<b>23</b>
<b>Item 16 – Investment Discretion.....</b>	<b>23</b>
<b>Item 17 – Voting Client Securities.....</b>	<b>23</b>
<b>Item 18 – Financial Information.....</b>	<b>25</b>

#### **Item 4 – Advisory Business**

##### The Firm and its Principal Owner

Safkhet Capital Management, LLC is a Delaware limited liability company, which commenced operations in August 2017. Safkhet's primary office is located at 1345 Avenue of the Americas Suite 33-002, New York, NY 10105.

Safkhet Capital Management, LLC ("Safkhet") is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC"). Safkhet is owned by Fahmi Quadir. Ms. Quadir serves as the Chief Executive Officer ("CEO"), Chief Investment Officer ("CIO") and Chief Compliance Officer ("CCO") of Safkhet.

##### Types of Services

Safkhet currently offers investment advisory services to private funds (each a "Fund" and collectively the "Funds"). It may offer investment advisory services to institutional entities, high net worth individuals, families, trusts, foundations and endowments through one or more separately-managed account clients ("SMA's) and may serve as investment adviser and/or sub-adviser to various other advisory clients, including SMAs and other private investment funds. The Funds and SMAs are collectively referred to herein as "Clients".

The investments of each Fund are managed in accordance with the investment objectives, strategies and guidelines applicable to such Fund and are not tailored to any particular investor in the Fund (an "Investor"). Safkhet does not provide individualized investment advice to such Investors with respect to their investment in the Fund; therefore, Investors should consider whether a particular Fund meets their investment objectives, risk tolerance and financial situation. In addition, Safkhet may enter into arrangements with certain Clients (or underlying Investors) that may in each case provide for terms of investment that are more favorable to the terms provided to other Clients (or underlying Investors). Such terms may include the waiver or reduction of management and/or incentive fees, the provision of additional information or reports, more favorable transfer rights, and more favorable liquidity rights.

##### Advisory Services to SMAs

Investments for a separately managed account Client are managed in accordance with the Client's investment objectives, strategies, restrictions and guidelines as set forth in the documents governing Safkhet's relationship with such Client or as otherwise communicated to Safkhet by the Client. Depending on the nature of the relationship, these services may be offered on a discretionary or non-discretionary basis and may include the investment and reinvestment of securities, cash and cash equivalents, futures and options held in a Client's account. If a Client wishes to impose certain restrictions on investing in certain securities or types of securities, or is prohibited by applicable law from investing in

such securities or types of securities, Safkhet will address those requests on a case-by-case basis.

Wrap Fee Programs

Safkhet does not participate in wrap fee programs.

Regulatory Assets Under Management

As of January 31, 2019, Safkhet manages approximately \$77.1 million on a discretionary basis and \$0 on a non-discretionary basis.

## Item 5 – Fees and Compensation

### Management Fees

Safkhet charges any Funds an asset-based management fee (“Management Fee”), which is based on a sliding scale. As assets under management increase for each Client, the management fee percentage incrementally decreases from 1.50% per annum.

If an SMA Client is engaged, the SMA may pay Safkhet an annualized management fee (the “SMA Management Fee”). The SMA Management Fee will be subject to negotiation with the Client and a Client may therefore pay more or less than other Clients for the same or similar management services. Any SMA Management Fee will be dependent on the individual investment advisory agreement negotiated between the Client and Safkhet. Safkhet may in its own discretion waive or reduce the Management Fee.

### Performance Fees

See Item 6 below.

### Calculation and Payment of Management Fees

Management Fees are calculated and billed by Safkhet quarterly in advance based on the market value of the assets managed by Safkhet as of the first business day of each calendar quarter (“Calculation Date”). Management Fees are deducted from each Client’s account by Safkhet generally within five (5) days after the Calculation Date.

### Additional Fees and Expenses

Fees paid to Safkhet are exclusive of all custodial and transaction costs paid to the Client’s custodian, brokers or other third-party consultants. Please see *Item 12 – Brokerage Practices* for additional information. Fees paid to Safkhet are also separate and distinct from the fees and expenses charged by mutual funds, exchange traded funds (“ETFs”) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund’s or pool’s prospectus or offering materials). Each Client (and each Investor) should review all fees charged by funds, brokers, Safkhet and others to fully understand the total amount of fees paid by the Client (and each Investor) for investment and financial-related services.

Either Safkhet or the Client may terminate their investment advisory agreement at any time, subject to any written notice requirements in such agreement. In the event of termination in accordance with its terms, any paid but unearned fees will be promptly refunded to the Client based on the number of days that the account was managed, and any fees due to Safkhet from the Client will generally be invoiced or deducted from the Client’s account prior to termination.

### Compensation for Sale of Securities or Other Investment Products

Safkhet does not receive compensation for securities transactions or services related to any Client account or any other fees other than the Management and Performance Fees charged for its advisory services.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

### Performance-Based Fees

Safkhet will be entitled to receive, for each fiscal year of management, a performance fee from each Client account, determined by applying varying percentages (“Allocation Percentages”) of that Client’s share of returns (as defined in each Limited Partnership Agreement or investment management agreement) during an Incentive Allocation Period (as defined in the same documents) equal to the sum of two components: (i) the extent to which the client return exceeds the return of the Negative S&P Index (the “Inverse S&P”) during such Valuation Period; plus (ii) the total amount of the client return itself for such year. Performance fees will be subject to a “high-water mark” provision, *i.e.*, prior Net Losses (as defined in the client agreements) and/or prior Alpha Losses (as defined in the client agreements) must first be recovered (offset) by subsequent allocations of positive client returns before Safkhet may receive a performance fee from such client. It is possible the two-tiered performance-based fees may in aggregate be greater than the industry standard of 20% of profits.

Safkhet, in its sole discretion, may waive or reduce any incentive allocation, carried interest or other incentive fee with regard to Investors that are employees or affiliates of Safkhet or relatives of such persons or for other Investors such as large or strategic Investors. Notwithstanding the foregoing, Safkhet or its affiliates may negotiate or set any incentive allocation, carried interest or other incentive fees or other terms different from the foregoing with respect to a Fund, SMA Client or any other Client Safkhet provides management services in the future.

### Side-By-Side Management

Safkhet may provide investment advisory services to “SMAs” in addition to private funds. Potential types of conflicts of interest may arise between Clients. For example, Safkhet has an incentive to allocate more resources to its largest clients who pay Safkhet the largest fees for similar advisory services compared to other Safkhet Clients. This is mitigated by Safkhet’s policies and procedures which are designed to treat the execution of all Client’s trades in an equitable manner. Examples of other conflicts may include, but are not limited to, the amount of time and investment ideas allocated to each SMA or private fund, orders that may not be fully executed on the same day between SMAs or private funds, or trades executed in one SMA that may adversely impact the value of securities held by another SMA or private fund. Safkhet believes these possible conflicts of interest may be mitigated by the fact that it employs one strategy across all Client accounts – both SMAs and private funds.

**Item 7 – Types of Clients**

Safkhet’s Clients (and Investors therein) may include the Funds, institutional entities, high net worth individuals, families, trusts, foundations, sovereign wealth funds, private or public pension plans and endowments (referred to herein as “Clients”). Safkhet’s minimum subscription in its private funds is \$3 million and the minimum SMA size is \$50 million. Safkhet may waive these minimums in its sole discretion.

Safkhet may allow certain Investors to invest in a Fund on different business terms than other Investors. For example, a Fund may agree to provide certain Investors additional or different information from the information made available to the other Investors in a Fund. Safkhet also may agree to provide certain Investors with a fee arrangement that differs in structure and amount from that generally available to other Investors in the Fund. In determining whether to allow an Investor to participate in a Fund on different business terms, Safkhet may consider a number of different factors including, but not limited to, Safkhet’s belief about whether the different terms will adversely affect the other Investors in a Fund considered as a group; such Investor’s objectives in requesting or accepting such terms; whether such Investor is under legal, regulatory or “best practices” obligations to request such terms; and/or whether granting such terms is in any respect inconsistent with representations made by a Fund or Safkhet to Investors.



## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

**The Investment Manager employs a short-only investment strategy with no hedging transactions. An investment in this strategy is not considered a complete investment program.**

### Method of Analysis and Investment Strategies

#### *Extensive Research and Analysis*

Safkhet intends to base its investment decision-making upon extensive forensic research and sophisticated analysis of potential shorting candidates. Research will utilize proprietary techniques developed by the CIO, predominantly through her experience managing the short desk at another investment firm. Safkhet may also utilize quantitative models or technical indicators that may assist in more effectively trading short opportunities.

#### *Opportunistic Investing*

Unlike a number of large firms that engage in shorting, the contemplated size and capital of Safkhet, which are likely be substantially less than that of such other firms, will allow Safkhet, in its view, to have a nimble and opportunistic approach to its investing. Safkhet intends to provide to its Clients an ability to trade in and out of positions quickly, whether by reason of a change in its fraud thesis, significant holding costs, or the identification of more favorable shorting candidates. In Safkhet's view, such ability may enable it to deploy significant amounts of capital and move quickly to realize profits or limit losses. In order to focus upon Safkhet's best ideas, and to deploy meaningful portions of Client capital, Safkhet invests in a concentrated portfolio of short positions. Accordingly, diversification is unlikely to be a significant factor in investment decision-making. Safkhet will engage exclusively in short sale transactions largely involving adequately liquid equity securities, with some fixed-income instruments invested in opportunistically.

#### *Idea Generation*

In furtherance of its opportunistic and flexible approach to investing, Safkhet intends to carefully monitor news within the relevant investment universe, track cyclical trends, observe the course of regulatory action and litigation and follow notorious research shops and known fraudsters. Safkhet will employ a variety of screens pertaining to financial characteristics, such as working capital, operating efficiency and profitability, and to a lesser extent, sources from Safkhet's network of investors, private equity firms and industry contacts.

#### *Duration of Positions*

Safkhet will endeavor to invest in what it deems fraudulent-heavy stocks that it believes will experience significant price declines over the near term (*i.e.*, typically a year or less). Each investment made will have a discrete investment horizon where Safkhet expects an inflection in the company's potential for fraud and fundamentals to allow timely realization of profits. In contrast, some major investment firms will assume large short positions in

stocks of one or more companies that they may hold for protracted periods of several years. Such practices can be highly costly, face substantial opposition by issuing companies, including aggressive litigation, or prove ultimately unsuccessful. Safkhet may, in its sole discretion, hold a short position for any duration including in excess of one year, despite its intention of closing short positions generally within one year or less.

#### *Passive Approach*

In order to avoid the burdens commonly associated with an activist short strategy, such as substantial costs, requisite capital, issuer defensive tactics, prolonged time periods and general uncertainty as to achieving the desired objective, Safkhet will be a passive investor and may be expected to avoid taking public positions in any security or publicly disseminate its proprietary research. Safkhet will not maintain a public social media or internet presence to discuss its opinions or thesis on any company. Safkhet may, however, deliver its research to appropriate authorities, including but not limited to, a company's board of directors, external auditors and federal or state regulatory agencies. Safkhet may also deliver certain research, off the record, to journalists that have represented to Safkhet that they will verify independently Safkhet's conclusions.

#### *Whistleblower Activity*

As an inherent part of its investment philosophy, Safkhet believes that it is in the public interest to take appropriate action, in most cases, to seek to assure that fraudulent activity it has identified is properly disclosed in the investment marketplace, as well as to the public generally, and reported to the appropriate authorities, in order to increase the likelihood that regulatory attention and proper enforcement measures may and will occur. Such activity is founded upon Safkhet's core principles of sound social policy. Unlike some short sellers, Safkhet will not engage in such practices simply to drive down market prices in order to make their short positions more lucrative. Any monetary award Safkhet may receive through such whistleblower activities will not inure to Safkhet's benefit; rather, any such award will be equitably allocated to Safkhet's Clients if obtained over the course of investment work for its Clients.

#### *Risk of Loss*

All securities investments risk the loss of capital. In particular, and as summarized below, a "short-only" investment strategy has a degree of risk exceeding those of other investment strategies. There can be no assurance that Safkhet will be profitable or that it will not incur losses. Prospective Investors should consider the risks summarized below, among others, before investing with Safkhet. Accordingly, an investment with Safkhet should only be considered by investors as part of an overall investment program and who are willing and able to assume the risk of losing their entire investment. Prospective clients should ensure that they have the ability to fully understand and absorb the substantial risks of investing in a short-only investment vehicle.

#### **Summary of Material Risks**

Investing in equity and fixed income securities involves certain risks including the risk of loss. The following list is not intended to be an exhaustive list of potential risks of investing in equity and fixed income securities, nor following the investment program suggested by

Safkhet.

*Equity Investments*

Client assets may be invested at any time in equity securities including common stocks, preferred stocks, convertible securities and warrants. These securities may be traded on major stock exchanges, the NASDAQ (National Market System, small cap and bulletin board), foreign exchanges or regional stock exchanges. Although equity securities have a history of long-term growth in value, their prices fluctuate based on changes in the issuer's financial condition and prospects and on overall market and economic conditions. Client accounts may be invested not only in securities of issuers with large market capitalizations, but also in securities of medium-cap, small-cap and micro-cap companies. Smaller companies often have limited product lines, markets or financial resources, and may depend on one or few key persons for management. The securities of such companies may be subject to more volatile market movements than securities of larger, more established companies, both because the securities typically are traded in lower volume and because the issuers typically are more subject to changes in earnings and prospects.

*Fixed Income Investments*

Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The market values of fixed income securities tend to vary inversely with the level of interest rates. Yields and market values of fixed income securities fluctuate over time, reflecting not only changing interest rates but the market's perception of credit quality and the outlook for economic growth.

Lower rated or unrated (i.e., high yield) securities are more likely to react to developments affecting market and credit risk than are more highly rated securities, which primarily react to movements in the general level of interest rates. Lower rated securities are defined as securities below the fourth highest rating category by a nationally recognized statistical rating organization. Such obligations are speculative and may be in default. Safkhet may invest Client assets in such 'high yield' securities. In addition, Safkhet may invest Client accounts in unrated securities. When economic conditions appear to be deteriorating, medium to lower rated securities may decline in value due to heightened concern over credit quality, regardless of prevailing interest rates. Investors should carefully consider the relative risks of investing in high yield securities and understand that such securities are not generally meant for short-term investing.

*Leverage*

The use of leverage by buying securities on margin is a speculative technique that involves special risk considerations. Interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the return earned on borrowed funds. Interest on borrowings will be an expense of the Client and will affect the investment performance of the accounts in which leverage is employed. To the extent a Client account is leveraged, the value of its assets will tend to increase more when its

portfolio securities increase in value, and to decrease more when its portfolio securities decrease in value, than if its assets were not leveraged.

Any lenders to a Client account are entitled to receive payments of interest or repayments of principal. Consequently, Safkhet might have to sell portfolio securities to meet interest or principal payments at a time when fundamental investment considerations would not favor such sales. Also, the terms of any borrowings may contain provisions that limit certain activities of the Client including for example, the ability to make cash withdrawals.

#### *Highly Volatile Markets*

The prices of Clients' investments can be highly volatile. Price movements of equities, fixed income, ETFs, commodities, including those investments which may be made in markets outside the United States of America, such as emerging markets, are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments and interest rate-related securities. Such intervention often is intended directly to influence prices and may, together with other factors, cause such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Moreover, since internationally there may be less government supervision and regulation of worldwide stock exchanges and clearinghouses than in the United States, Client accounts may also be subject to the risk of the failure of the exchanges on which their positions trade or of their clearinghouses, and there may be a higher risk of financial irregularities and/or lack of appropriate risk monitoring and controls.

#### *Foreign Investment Considerations*

There are risks associated with investments in securities of foreign companies, which add to the usual risks inherent in domestic investments. Such risks may include fluctuations in foreign exchange rates (against which Safkhet may not hedge (although Safkhet intends to exit any foreign currency positions as quickly as possible to keep cash balances in local currency), political or economic instability in the country of issue, and the possible imposition of exchange controls or other laws or restrictions. In addition, securities prices in foreign markets are generally subject to different economic, financial, political and social factors than are the prices of securities in United States markets. With respect to some foreign countries there may be the possibility of expropriation or confiscatory taxation, limitations on liquidity of securities or political or economic developments that could affect the foreign investments of Client accounts. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by Clients than is available concerning U.S. companies. Foreign companies are also generally not subject to uniform accounting, auditing and financial reporting standards or to practices and requirements comparable to those applicable to U.S. companies.

#### *Economic Conditions*

Changes in economic conditions, including, for example, interest rates, credit availability, inflation rates, industry conditions, government regulation, competition, technological developments, political and diplomatic events and trends, tax and other laws and innumerable other factors, can affect Clients' investments and prospects materially and adversely. None of these conditions is within Safkhet's control and it may not anticipate these developments. These factors may affect the volatility of securities prices and the liquidity of the Clients' investments. Unexpected volatility or illiquidity could impair the Clients' profitability or result in losses.

Economic conditions also affect Clients' investment in fixed income securities. For example, an increase in overall interest rates will depress the investment value and consequently the price of any bonds that Clients hold. The value of these securities also may be affected by nonpayment of interest due on them, or liquidation or dissolution proceedings with respect to their issuers.

*Insolvency of Brokers, Providers or Others*

Client accounts are subject to the risk that the brokerage firms, that execute its trades, the clearing firms that such brokers use, or the clearing houses of which such clearing firms are members become insolvent. In such event, the assets in Client accounts may become subject to the claims of general creditors of any such insolvent brokerage firm.

*Dependence on Fahmi Quadir*

Fahmi Quadir is the Chief Investment Officer for Safkhet with respect to Client accounts and is primarily responsible for managing the Clients' investment portfolios. Although there is a plan in place for an orderly wind down of Safkhet in Ms. Quadir's absence, no assurance exists that a suitable replacement could be found if Ms. Quadir becomes unavailable for any reason.

*Potential Conflicts of Interest*

Safkhet is accountable to each Client as a fiduciary and, consequently, must exercise good faith and integrity in managing Client accounts involving potential and actual conflicts of interest. This duty exists in addition to the various duties of, and limitations on Safkhet as set forth in any investment management agreements. Safkhet will endeavor to conduct the affairs of its business in a manner fully consistent with their fiduciary obligations, and to ensure that any conflicts of interest are resolved in a fair manner.

Because Safkhet and its officers and employees may engage in other securities investment activities and businesses, including the management of trading accounts on their own behalf, conflicts of interest may arise among Clients and these persons. Safkhet is not obligated by contract to buy, sell or recommend for any one Client any security or other investment that may be bought, sold or recommended for other clients or for the Investment Manager's own or related persons' account, but Safkhet will fairly allocate investments in the event of an actual conflict.

Orders on behalf of one or more Client may be "bunched" with the orders of Safkhet, its officers or its other clients. This practice may result in one Client obtaining a better average

trade price and lower commission charge than might otherwise be available to Clients without such bunching. This practice may also result in Safkhet obtaining a less advantageous trade price.

### **Risks in Short Selling Generally**

The profitability of short selling depends upon a variety of unique factors and the mitigation of certain substantial risks including, but not necessarily limited to, the following:

*Disparate Risk Levels as to Profits and Losses.* The profit/loss limitations inherent in short selling creates the fundamental risk of short trading. Short selling is subject to a theoretically unlimited risk of loss, because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Client accounts at prices sufficient to generate a profit from the position or lessen a loss. Purchasing securities to close out a short position can itself cause the price of the shorted securities to rise further, thereby increasing any loss incurred by the short seller. A short seller may be forced to close out a short position prematurely if a counterparty from which the seller borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

In contrast to the virtual lack of limitation upon the amount of losses a short position can incur, the maximum level of positive return a short position may achieve is limited to 100% of the size of the trade. This limit arises from the fact that the liability created by the stock loan must be repaid from the short proceeds and even if the price of the shorted stock goes to zero, the investment return cannot be less than zero. This imbalance between levels of maximum profits and losses inherent in short selling creates a highly unfavorable risk/reward relationship.

*Strength of Strategy and Analytics.* Superior investment performance of any short sale strategy depends upon applying an investment approach and analysis that properly identifies attractive securities for shorting. This can involve various methods and modes of analysis that may be more complex and uncertain, as compared to investing on a long basis with established investment strategies, such as investing based on valuation. Issuers will only provide investors with information to support a purchase; it is against their interest to provide information supporting a sale. Therefore, Safkhet will need to utilize additional research efforts to build conviction outside of an issuer's own narrative, which will require greater time and resources as compared to making a long investment.

*Ability to Obtain Optimal Executions.* Profitability of a shorting strategy is further dependent upon the quality of trade executions, both in establishing the short position and closing out that position. The broker that is initiating the trade must first "locate" the security that is to be sold short. Some securities that Safkhet may wish to sell short may be "hard to locate", which may impair the best timing for the trade, thereby eliminating its desired profitability as well as increase its expense. Similarly, a position may initially be



easy to locate but becomes hard to locate after Safkhet's thesis begins to materialize and the market begins to reflect company fundamentals. So-called "hard to locate" stocks are those that may have difficulty in location or other factors, such as market float, that can impair a broker's ability to borrow shares to lend to Client accounts for shorting purposes. Accordingly, the optimum choice of brokers to execute short trades can depend on, among other factors, the judgment of Safkhet in selecting a broker that has superior ability to locate the desired security, as well as offering desirable terms as to expenses of the trade.

*Timing of Trades.* The timing of trades, as to both establishing of the position and closing it out, is a critical (and perhaps determinative) factor as to the success of any strategy. Even if a trader's strategy and analytics may identify favorable stocks for shorting, the ultimate profitability of a short position (or the incurrence of a loss) depends, in whole or in part, upon proper timing of the trade. The risk created by major events affecting markets generally that are largely unforeseeable at the time (so-called "risk of ruin") can significantly impair the attractive timing of trades.

*Impact of Price Volatility.* Stocks with a relatively high level of volatility may be particularly difficult to short successfully, since frequent and significant changes in their market prices can rapidly impact the timing and price levels at which short positions could be established or closed out. Conversely, a stock with a low level of volatility, *i.e.* that is largely static as to price during the shorting period, can prevent the position from being profitable. Accordingly, in order to profit from short trading, accurate estimates as to security volatility are a necessary part of the analytic process.

*Trade Expenses.* Short sales are subject to a variety of expenses not typically incurred with long side trading, some of which are subject to negotiation in a securities lending agreement and others that are largely fixed. These fees can be substantial and may vary over time. Short selling typically involves stock loan expense. Moreover, in addition to receiving the proceeds of the short sale itself, a stock lender will typically require a deposit that is subject to negotiation. Although expenses may be reduced somewhat by so-called "short rebates" back to the short seller, such rebates are generally small and subject to negotiation. A lender may "call back" the shorted stock, or require the deposit of additional amounts, each of which can occur suddenly and may cause the short position to be liquidated on an untimely basis, lessen its profitability or create a loss in the position. Moreover, most lending agreements also provide for a splitting of profits between the trader and the counterparty.

*Market Conditions.* In general, overall market conditions and developments can have a significant impact upon short selling strategies. Market conditions, may or may not create downward pressure upon particular stocks, whether directly or through their industries or sectors or overall conditions in their markets, to create shorting opportunities. Bull markets or temporary market rallies can generate investment losses in short selling or reduce the number of attractive short sale candidates. As most short selling involves the use of margin, high levels of inflation and credit restrictions or other market conditions can adversely affect a short seller by increasing interest cost and other expenses associated with margin borrowings.

*Resistance by Market Forces.* Historically the securities markets have exhibited a long bias and statistically-demonstrated profitability over the long term. Market participants invest mainly on the long side and may view short sellers as antagonistic to their investing. Moreover, some investors may utilize short sale indicators (such as relative long-short volume) to identify stocks that in fact may become attractive to purchase where in the investor's judgment, their market prices may have been driven down to artificial levels due to the efforts of short sellers. By their nature most brokers are buy-side oriented and therefore resist any recommendation of stocks to be sold short.

So-called "street research" as to shorting candidates is highly limited and when available may be of low quality or largely useless. As any such research and related recommendations may be widely disseminated, it may attract other short sellers and thereby dilute the amount of stock available for shorting and the profit potential in the short opportunity addressed by such research and any related recommendation.

A short seller may be correct in its analysis, but market forces acting to buy a security, whether with or without merit can cause the short seller to lose money or exit a position for a loss or smaller gain than anticipated.

*Resistance by Target Companies.* Companies that become the targets of significant short selling may elect to employ a variety of defensive tactics to counteract the impact of short selling upon their stock prices. Such tactics may include the public announcement of favorable developments at the company, which can be overstated or even false; large investment in their stock by investors friendly to management; a so-called "short squeeze", where by various means the borrowing of their stock for shorting purposes is made substantially more difficult; significant adverse publicity as to the short sellers; reporting alleged shorting misconduct (such as the spreading of false rumors) to regulators; and, in some cases, the threat or commencement of litigation. Such action by companies with shorted stocks can result in termination by short sellers of their positions on unfavorable conditions, or the incurrence of significant expense by short sellers that choose to resist or counter the target company's tactics in an effort to ultimately prevail.

*Regulatory Restrictions.* Short sell trading is subject to certain specific regulatory limitations established by the SEC. The alternative uptick rule is triggered when a security's price decreases by 10% or more from the previous day's closing price and is effective until the close of the next day. At that point, short selling would be permitted only if the price of the security is above the current national best bid. The intent of the rule is to prevent short sellers from exploiting trading opportunities created when a stock has already experienced significant price declines. Another rule makes it unlawful for anyone who sells short a security (other than an exempt security) that is the subject of a public offering to purchase that security in the offering from an underwriter or broker-dealer participating in the offering, if the short sale occurred during a restricted period established by the rule. Additional regulatory restrictions may be imposed in the future.



**Item 9 – Disciplinary Information**

Safkhet and its CIO have no disciplinary history, such as criminal or civil actions in courts, administrative proceedings of the SEC or other federal or state regulatory agencies, or proceedings with self-regulatory organizations.

**Item 10 – Other Financial Industry Activities and Affiliations**

Safkhet has no other financial industry activities and affiliations.

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

Code of Ethics

Safkhet has adopted a written code of ethics that is applicable to all employees, particularly employees with access or knowledge of Clients' investments ("Access Persons"). Among other things, the code requires Safkhet and its employees to act in Clients' best interests, abide by all applicable regulations, and follow Safkhet's personal securities transactions policy. It is the obligation of Safkhet employees to adhere not only to the specific provisions of the Code, but also to the general principles that guide the Code. Safkhet puts the interest of its Clients ahead of its own. Safkhet's restrictions on personal securities trading apply to all employees, as well as employees' family members living in the same household. A copy of Safkhet's code of ethics is available upon request.

Safkhet's Code of Ethics generally includes the following general principles:

- Safkhet owes a fiduciary obligation to all clients, and therefore, Safkhet's Access Persons have a duty to act in a manner that supports this obligation.
- Access Persons have the duty at all times to place the interests of all Clients first and foremost.
- Access Persons must refrain from taking inappropriate advantage of their positions with Safkhet.
- Access Persons must conduct their securities transactions in personal accounts in a manner that avoids conflicts or the appearance of conflicts of interest, or abuses of their position of trust and responsibility.
- Access Persons must avoid actions or activities that allow (or appear to allow) them or their immediate families to benefit from their positions with Safkhet, at the expense of Clients, or that bring into question their independence or judgment.
- Access Persons must comply with all applicable Federal Securities Laws.

Safkhet's employees are required to certify their compliance with the Code of Ethics on an annual basis.

Any proposed employee transaction involving reportable transactions such as making an investment in a private placement, requires preclearance. It is Safkhet's policy that if a conflict arises, the instance will be resolved in the favor of the Client to the full extent that is possible given the specific circumstances, and that appropriate measures will be taken to document to issue, add new policies and procedures where relevant, and enforce the matter with all employees of Safkhet.

Recommending, or Buying or Selling for Client Accounts, Securities in which Safkhet or its Related Persons Have Material Financial Interests

Safkhet does not act as principal in any transactions. Safkhet has adopted a personal trading policy and procedure to protect against these material conflicts. No employee of Safkhet is permitted to transact in any security to the detriment of any Client or Investor.

Recommending or Buying or Selling for Client Accounts, Securities at or about the Same Time Safkhet or its Related Persons Buy or Sell the Same Securities for Their Own Accounts.

Safkhet and its related persons do not enter into securities transactions with Clients. Employees are encouraged to invest side by side along with Clients and in Safkhet's strategy by investing in one or more of its Fund clients.

## Item 12 – Brokerage Practices

### Soft Dollars

Safkhet does not currently participate in soft dollar programs sponsored or offered by any broker-dealer and does not have any intention to do so in the future.

### Brokerage Referrals

Safkhet does not receive compensation from third parties in connection with the recommendation of establishing a brokerage account.

### Directed Brokerage

Safkhet places trades on behalf of Clients within the established account(s) at the custodian. Safkhet does not engage in any principal transactions (i.e., trade of any security from or to Safkhet's own account) or cross transactions with other Client accounts (i.e., purchase of a security into one Client account from another Client's accounts). A Client may request the use of one or more custodians, however, Safkhet makes best efforts to group all of its Client accounts with the same qualified custodian.

### Aggregating and Allocating Trades

The primary objective in placing orders for the purchase and sale of securities is to obtain the most favorable net results taking into account such factors as 1) price, 2) size of order, 3) difficulty of execution, 4) confidentiality and 5) skill required of the broker. Safkhet makes best efforts to aggregate Client trades where possible, however, given the nature of short selling for Client accounts, there will be instances where aggregating Client trades in an individual security will not be possible or recommended. In such circumstances, Safkhet has adopted equitable allocation procedures to ensure that no one Client is consistently advantaged or disadvantaged to the detriment or benefit of another Client. Although equal execution will not be guaranteed when orders are not aggregated for the same security, Safkhet will endeavor to ensure that all Clients are treated fairly. Clients participating in a bunched order receive the same average price and incur trading costs that are the same as or lower than what would be paid if they were trading individually. Safkhet will execute its transactions through an unaffiliated broker-dealer.

### Best Execution Reviews

On at least an annual basis Safkhet evaluates the pricing and services offered by its broker partners and other trading counterparties with those offered by other reputable firms. Safkhet currently does not receive any services or compensation from its broker partners so the best price and execution are primary factors in considering partner selection.

### **Item 13 – Review of Accounts**

Safkhet continuously reviews holdings across Client accounts. An account-by account review is conducted quarterly or more frequently as necessary. These reviews will focus on appropriateness of the Client's investments for the Fund's portfolio and the performance of the Fund. Investors in the Funds generally receive, among other things, a copy of audited financial statements of the Fund within 120 days after the fiscal year end of the Fund. In addition, Investors in the Funds will typically receive unaudited summary financial information regarding their investment in the Fund on a monthly basis. Investors in the Fund also receive regular reporting updates through letters and investor meetings. SMA Clients generally receive written quarterly and annual reports from the custodian.

### **Item 14 - Client Referrals and Other Compensation**

#### Client Referrals

Safkhet currently does not enter into referral agreements.

#### Other Compensation

Safkhet does not receive other compensation other than the Management and Performance Fees related to its advisory services provided to Clients.

### **Item 15 – Custody**

Rule 206(4)-2 promulgated under the Advisers Act (the “Custody Rule”) (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

Safkhet is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which it has custody with a qualified custodian. Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle (i) is audited at least annually by an independent public accountant and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end. Safkhet relies upon this audit exception with respect to the Funds.

### **Item 16 – Investment Discretion**

Safkhet has discretionary authority to determine the investments to be bought or sold and the amounts to invest for Client accounts, pursuant to the respective investment advisory agreements between Safkhet (or its affiliates) and the Client.

### **Item 17 – Voting Client Securities**

As a general policy, Safkhet refrains from voting proxies related to securities held by Clients (and refrains from making a recommendation to Clients regarding whether to participate in any class action suits in which one or more of the Clients are eligible). If such an opportunity presents itself, Safkhet will vote client proxies according to its proxy voting policies and procedures, which in general include but are not limited to the following

considerations:

- Safkhet reviews and considers proxies such as those involving shareholder rights, corporate governance, corporate reorganization, and social concerns;
- Proxies are voted on an individual basis;
- Proxies determined to be economically immaterial or insignificant are typically voted in accordance with management's recommendations;
- Consideration shall be given to Clients who are directors or controlling investors in a public company; and
- Clients with specific preferences for example, related to environmental or other matters personal to the Client, may be voted in accordance with the Client's preferences.

Safkhet provides a copy of Safkhet's Proxy Voting Policies and Procedures to Clients upon request at no charge. Clients may also request a record of proxies as voted by Safkhet or qualified service on behalf of Safkhet Clients. Clients may request proxy information from Safkhet by calling Fahmi Quadir at 212-313-6877 or by sending an email to [info@safkhetcapital.com](mailto:info@safkhetcapital.com).



**Item 18 – Financial Information**

Safkhet is not required to include a balance sheet for its most recent financial 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.