



**100 Wall Street, 28<sup>th</sup> Floor  
New York, NY 10005  
(212) 422-2165**

## **1505 Capital LLC**

### **Firm Brochure**

**April 16, 2019**

All the material within this Brochure must be reviewed by those who are considering becoming a client of 1505 Capital LLC ("1505 Capital" or "Registrant"). This Brochure provides information about the qualifications and business practices of 1505 Capital LLC. If you have any questions about the contents of this Brochure, please contact the Chief Compliance Officer, Gery Sadzewicz, [gerys@gscapplianceconsulting.com](mailto:gerys@gscapplianceconsulting.com) or at 815-545-9616.

In accordance with federal and state regulations, this Brochure is on file with the appropriate securities regulatory authorities as required. The information provided within this Brochure is not to be construed as an endorsement or recommendation by state securities authorities in any jurisdiction within the United States, or by the United States Securities and Exchange Commission (the "SEC"). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

1505 Capital LLC is registered as a registered Investment Adviser with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Investment Adviser provide you with information with which you determine whether to hire or retain them as an Investment Adviser. Additional information about 1505 Capital is also available on the SEC's Web Site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

A copy of our Brochure may also be obtained, free of charge, by request to our Chief Compliance Officer, Gery Sadzewicz, [gerys@gscapplianceconsulting.com](mailto:gerys@gscapplianceconsulting.com) or at 815-545-9616. Please read and understand the entire Brochure as responses to certain Items also may respond to or provide additional or fuller information regarding responses to other Items.

## **Item 2 – Material Changes**

Effective April 2, 2019, 1505 Capital had a change in control as follows:

- Ironbound Financial Services Inc. was renamed to Aurora Financial Services Inc. (“AFS”). AFS ownership of 1505 Capital decreased to 49%. AFS is owned by Aurora Structuring Advisors, LLC. Richard Vecchiolla is 100% owner of Aurora Structuring Advisors.
- Vespoint LLC is no longer a member/owner of 1505 Capital, but its subsidiary Midwest Holding Inc., a public entity, is 51% member/owner of 1505 Capital.

### **Item 3 – Table of Contents**

Item 2 – Material Changes .....	2
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	6
Item 6 – Performance-Based Fees and Side-By-Side Management .....	7
Item 7 – Types of Clients .....	8
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9 – Disciplinary Information .....	16
Item 10 – Other Financial Industry Activities and Affiliations .....	16
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	17
Item 12 – Brokerage Practices .....	17
Item 13 – Review of Accounts.....	19
Item 14 – Client Referrals and Other Compensation .....	19
Item 15 – Custody.....	19
Item 16 – Investment Discretion .....	19
Item 17 – Voting Client Securities.....	19
Item 18 – Financial Information .....	20

**Part 2A, Appendix 1: The “Wrap Brochure”** - 1505 Capital LLC does not sponsor a wrap fee program. Therefore, Part 2A, Appendix 1 is not applicable.

#### **Item 4 – Advisory Business**

1505 Capital, a Delaware limited liability company, was formed in August 2018 to provide management services primarily to insurance companies but also to other institutional accounts. In addition to providing management services directly to its clients, 1505 Capital may act as a sub-advisor to other investment managers and their respective clients, and expects to select and retain sub-advisors that provide 1505 Capital's clients with in-depth expertise and access to various investments and/or investment strategies.

The primary strategies that 1505 Capital utilizes or may in the future utilize on behalf of 1505 Capital's investors are identified below (each, a "Strategy"). Each Strategy is described in further detail in Item 8 herein.

- Direct Non-Owner Occupied Mortgage Loans or Participations therein (collectively, "Mortgage Loans"). Mortgage Loans may include multi-family, commercial, and non-owner-occupied single-family properties.
- Direct Asset-Based Loans or Participations therein ("Asset-Based Loans"). Asset-Based Loans may include infrastructure financing, equipment financing, and other tangible asset financings.
- Broadly-Syndicated (rated) Fixed-Income, Credit and Asset-Backed Investments ("Syndicated Investments"). Syndicated Investments may include bonds, loans, or similar investments or securitizations of such instruments that are rated, have a CUSIP, and clear in DTC or a similar clearing system.

1505 Capital will expect to expand its mix of Strategies as opportunities arise in different investment sectors that match its clients' objectives and/or as requested to do so by its clients. 1505 Capital will do so either directly or through additional sub-advisors with strategy-specific expertise.

1505 Capital's client base is limited. The Registrant provides investment management services:

- Directly to insurance companies and expects in the future to also provide services to other institutional accounts.
- Through sub-advisors which are retained in consultation with and approval of 1505 Capital's clients.

1505 Capital only manages assets which are the subject of its management and sub-advisory agreements, and does not consider the client's other assets and other obligations (subject to "Additional Services" described below).

1505 Capital receives authority to supervise and direct the investment of the assets in accordance with the client's written objectives and limitations as outlined in each individual client's Investment Management Agreement or Sub-Advisory Agreement, as applicable. At the time of this Brochure, all Investment Management Agreements require approval of the client to acquire an investment. 1505 Capital expects to enter into additional Investment Management Agreement(s) where it will supervise and direct the investment of the assets in accordance with the client's written objectives and limitations on a discretionary basis.

In either case, clients also impose restrictions or limitations on investing in specific securities, specific types of securities, or specific strategies. Moreover, since most of the Registrant's accounts are with regulated entities, there are additional constraints imposed through state or federal regulation on their investments.

### Consulting Services

1505 Capital may provide consulting services for fee to insurance companies, their affiliates and other institutional clients, including, without limitation, advice on matters such as overall asset allocation and/or portfolio optimization based on: i) stated investment guidelines and/or ii) risk-based capital guidelines. 1505 Capital also intends to provide consulting services related to development and implementation of firm-wide investment policies and programs, such as derivative use plans.

1505 Capital may also provide flat-fee consulting services ("Flat Fee-Based Consulting") to clients including, without limitation, providing advice on matters related to financing arrangements, financial modeling, and documentation.

### Ownership and Principals

1505 Capital is owned by Midwest Holding Inc. (51%), a publicly held company, and Aurora Financial Services Inc. (49%).

Aurora Financial Services Inc. is owned by Aurora Structuring Advisors, LLC. Richard Vecchiolla is 100% owner of Aurora Structuring Advisors.

### Wrap Fee Programs

1505 Capital does not participate in wrap fee programs.

### Assets Under Management

As of March 1, 2019, 1505 Capital has \$28,980,000 of assets under management, all on a non-discretionary basis.

### Other Matters

At any specific point in time, depending on perceived or anticipated market conditions or events, (there being no guarantee that such anticipated market conditions or events will occur), 1505 Capital (on behalf of its client(s)) may maintain cash positions for defensive purposes. All cash positions, including investments in money market funds, shall generally be included as part of assets under management for purposes of calculating 1505 Capital's management fees.

1505 Capital provides a copy of ADV Part 2 to every client and a copy will be provided to any prospective client upon request.

## **Item 5 – Fees and Compensation**

All fees are subject to negotiation between 1505 Capital and its institutional or insurance company clients. Among multiple factors, 1505 Capital considers are the size (and potential size) of the account, the type of assets managed, and the nature of the services provided. Fees and compensation may be comprised of investment advisory fees, base management fees, performance-based or incentive fees, and/or consulting fees. The manner in which fees are charged by 1505 Capital are set forth in each client's respective written Investment Management Agreement.

Typically, 1505 Capital charges a base management fee (the "Base Fee") for investment advice. Generally, Base Fees range from 0.25% to 1.00% per year on the principal amount of the assets managed by 1505 Capital (and average 50 basis points per annum), payable monthly in arrears.

In addition to Base Fees, for certain clients that are exempt from the compensation prohibition of section 205(a)(1) of the Investment Advisers Act of 1940, 1505 Capital may charge performance fees ("Incentive Fees"). Incentive Fees accrue on a "Strategy-by-Strategy" basis when returns on investments expressed on a percentage basis ("Returns") exceed an agreed-upon hurdle rate for such Strategy (the "Hurdle Rate"). Hurdle Rates will be individually negotiated with each client and are expected to range from 6% to 8% per annum, depending on the Strategy and market conditions at the time the Hurdle Rate was set. In certain cases, Hurdle Rates may be adjusted based on factors related to client capital costs and other factors that may also be individually negotiated. Incentive Fees are generally determined by 1505 Capital within 30 days after the end of each calendar year, and invoiced / paid promptly thereafter. Incentive Fees are structured in accordance with Section 205(a) of the Investment Advisers Act of 1940 and the rules and regulations promulgated thereunder.

Base Fees are invoiced directly to clients. Base Fees and Incentive Fees may vary from client-to-client and may be payable more or less frequently depending upon the client and the arrangement.

Generally, 1505 Capital does not require prepayment of fees unless otherwise permitted under the Investment Management Agreement. If prepayment has been provided for, 1505 Capital will, in the event of a termination, rebate a proportionate amount of the prepaid fees to the client based upon the unused portion for the month in which the termination occurred.

### Expenses Charged to Investors

1505 Capital's clients may pay, in addition to Base Fees and Incentive Fees, such other expenses as are agreed between 1505 Capital and the client in the Investment Management Agreement. Such expenses may include, without limitation, fees, costs and expenses relating to the acquisition and disposition of assets, investment-related expenses, indebtedness expenses, taxes, fees and other governmental charges, auditing and tax preparation expenses, custodial expenses, professional fees, data service fees, fees and expenses of accountants and counsel, litigation and indemnity costs, and other extraordinary expenses.

Although 1505 Capital does not generally use the services of broker-dealers for the purpose of executing investments on behalf of its clients, in the event that it chooses to use a broker-dealer

for limited purposes relating to an investment on behalf of a client, such client will incur brokerage and other transactional costs.

Supervised persons of Registrant may receive consulting and/or similar one-time fees for service from third parties and/or own non-control positions in sub-advisors or other entities from whom 1505 Capital intends to source direct investments. Conflicts of interest may arise relating to client investments in third parties who have paid such consulting fees.

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

1505 Capital’s typical incentive performance fees and the way they are determined are described above under Item 5 “Fees and Compensation.”

Clients should be aware that although intended as a mechanism to better align interests, performance-based fee arrangements may create an incentive to allocate more time and recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Furthermore, as 1505 Capital may also have clients who do not pay performance-based fees, 1505 Capital may have an incentive to favor accounts that do pay such performance-based fees because the compensation it receives from these clients is more directly tied to the performance of their accounts.

1505 Capital’s performance-based fees are paid in accordance with the requirements of the Advisers Act. Such fees are fully disclosed and are generally paid only after the client has achieved a specified return for a given Strategy. Registrant seeks to mitigate this conflict through full disclosure and its allocation policy, described below.

“Side-by-side” management refers to the simultaneous management of multiple clients that follow similar, complementary, or competing investment objectives, policies, or strategies. Side-by-side management gives rise to potential or actual conflicts of interest, including as discussed above the incentive to favor (or allocate additional opportunities) to higher fee paying clients or clients in which Registrant or its related persons have a pecuniary interest. As multiple accounts are on-boarded, Registrant has adopted a trade allocation policy designed to mitigate this conflict by seeking to allocate in a manner deemed fair and equitable over time in order to construct a well-diversified fully invested portfolio, consistent with each of its client guidelines.

Pro rata allocation of opportunities cannot be guaranteed. Due to the limitations of direct investment strategies, pro-rata allocation may not be possible. Many Asset-Based Loans and Mortgage Loans may not be suitable for all clients and in many instances will not be divisible.

Accordingly, allocation decisions by the Registrant are driven by a number of factors including (but not limited to) the following:

- Client-specific investment guidelines
- Targeted returns
- Maturity profiles
- Risk profile of the client’s portfolio

- Nature and target size of positions
- Specific capital constraints including available cash, as well as market conditions and performance. Direct investment strategies are typically “point in time” investments, and 1505 Capital will be subject to allocation policies itself of its sub-advisors. Accordingly, accounts with available liquidity at the time an opportunity is presented will tend to have priority.

In the absence of any of the above distinguishing factors, 1505 Capital will rotate opportunities across its accounts.

Also, in certain circumstances, 1505 Capital may give special consideration to new clients and/or a client with a substantial amount of cash to deploy or a need to raise cash. Clients that receive such a priority relative to other clients may have been seeded by Registrant or an affiliate. Accordingly, Registrant’s allocation decisions will affect performance and certain clients may not participate in gains or losses realized by other clients with similar investment objectives.

There is no assurance and should be no expectation that all client portfolios of 1505 Capital will hold the same (or similar) positions or will perform similarly.

## **Item 7 – Types of Clients**

1505 Capital, on its own and as sub-advisor, provides investment services for institutional third-party clients. Registrant’s client base is expected to include insurance companies and other institutional clients in the near future. Although 1505 Capital does not currently do so, regardless of client type, it may seek a minimum dollar fee or a minimum mandate size in an amount typically equal to \$10,000,000.

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

### ***Methods of Analysis and Investment Strategies***

1505 Capital’s investment process is built on a disciplined philosophy, a team-based investment approach, and a strategic relative value analysis. Through a customized approach, 1505 Capital’s clients benefit from its focus on optimizing performance, managing risk, and meeting client needs.

### **In General**

1505 Capital’s target investments focus on three areas of portfolio value: fundamental, relative, and structural.

Fundamental Value. Since any investment, particularly a fixed income instrument, represents a series of cash flows owed to the portfolio, 1505 Capital looks for assurances that those cash flows are sustainable, both in amount and timing.

Relative Value. Relative value is determined through application of 1505 Capital’s knowledge of trading histories, inter-market spreads, dealer inventories, comparable investments with similar



risk profiles, and end-user portfolios to find and execute the best pricing relative to a client's expressed yield and risk preferences as well as other opportunities then available in the market.

Structural Value. Structural value encompasses a series of risk mitigants or return enhancements that can make an underlying transaction more or less suitable to a client's portfolio objectives. Structural elements include, but are not limited to, subordination, guarantees, off-take agreements, collateral, cash flow diversions, reserve accounts, lock boxes, trustees, covenants, and limited recourse financing. 1505 Capital works with its clients to develop investment plans to optimize risk-return across multiple parameters such as risk-based capital, income requirements, yield curve positioning, liquidity requirements, risk tolerance, and accounting goals (though 1505 Capital does not provide tax or accounting advice). The investment plans may be solely for 1505 Capital core strategies, or in the case where 1505 Capital is providing consulting services, the investment plans may be for a client's entire portfolio or a subset thereof away from 1505 Capital core strategies.

### Overview of Strategies

#### 1. Direct Non-Owner Occupied Mortgage Loans

The small and mid-tier Mortgage Loan market is both inefficient and fragmented. The market is underserved by traditional lending institutions – in large part due to the challenges in timing and underwriting process (despite strong collateral packages). This disconnect in the market creates quality direct lending opportunities that can be captured through 1505 Capital and its sub-advisors' underwriting and origination processes.

Relationships, expertise, and knowledge allow 1505 Capital and its sub-advisors to source, underwrite, and structure Mortgage Loan opportunities with favorable yields and acceptable risk within its clients' yield targets and risk-parameters. Mortgage Loans also tend to be an efficient investment for insurance clients' risk-based capital usage and expect to map to an NAIC "CM" designation.

1505 Capital and its sub-advisor(s) focus on making loans (typically) ranging from \$100,000 to \$5,000,000, which are secured by a recorded 1st lien (or a participation in a recorded 1st lien) on well-positioned properties with appropriate risk-return profiles.

- Primarily through Sub-Advisors: 1505 Capital expects to execute this strategy primarily through sub-advisors that are specialists in the asset class and manage the strategy for multiple clients. Moreover, sub-advisors will tend to focus on specific subsegment of the market, segmented by either type of property, average & min / max loan amount, and/or geographic focus.
- Property Types / Term / Exit Strategy: 1505 Capital expects to focus primarily on non-owner-occupied multi-family properties that can range in size from small two-person properties to medium-sized apartment buildings. Target properties also tend to be clustered around the median values for the location – outlier properties on either high or low ends tend to be avoided. 1505 Capital will also focus on single-family properties that a professional sponsor is financing to rehabilitate and refinance or sell. Typical mortgage

loans across 1505 Capital's origination are less than 36 months in maturity, with most falling between 12 to 24 months.

- Geographic Focus: 1505 Capital will tend to focus geographically in areas where it has (either directly or via sub-advisors) strong “boots on the ground” relationships to conduct initial due diligence on properties, supervise inspections, and if needed, exercise remedies. As a result, 1505 Capital's geographic focus tends to be the New York metro region, New Jersey, Arizona, Illinois, Ohio, Pennsylvania, Georgia, South Florida, and Texas.
- Other Aspects (Professional Borrower, etc.): 1505 Capital also looks at borrower / sponsor creditworthiness and past performance. Preference is made to sponsors with strong track records (especially directly with 1505 Capital or a sub-advisor) in acquiring properties that expeditiously and on budget are either refinanced or sold. Guarantees from credit worthy borrowers also provide an additional positive in assessing the investment.

## 2. Direct Asset-Based Lending

1505 Capital either directly or through sub-advisors also sources Asset-Based Loan investments for its clients. Asset-Based Loans are typically

- Supported by pools of assets and/or equipment
- Infrastructure projects supported by assets and related revenue streams
- Loans with similar “hard asset” support

Although each Asset-Based Loan is individually underwritten and takes into account numerous additional factors into consideration, the following key characteristics predominate the review process:

- Assets and equipment that are considered business essential
- Revenue-producing or cost-saving equipment and assets
- Assets and equipment with substantial economic life relative to the investment term
- Assets and equipment with associated revenue streams
- Assets and equipment with high in-place value and thus considered essential use or core to a business or operation in the agricultural, energy, environmental, medical, manufacturing, technology, and transportation industries
- Asset-intensive project financings

Asset-Based Loans may also include loans to specialty lenders or special-purpose entities formed and managed by specialty lenders that then make individual loans on the above-referenced criteria. This form of financing is sometimes referred to “warehouse” or “lender” financing, and seeks to achieve a greater level of security than would be achieved by investing directly in the underlying assets or receivables.

1505 Capital concentrates on direct investments (or participations in direct investments) in transaction sizes below \$20.0 million. Maturities vary but are typically from 3 to 15 years. 1505 Capital employs this strategy with a focus on the United States and Western Europe. Any non-USD investments would be expected to be cross-currency hedged to USD.

Originating an Asset-Based Loan involves, among other things: identifying a lessee or other end-user; inspecting the equipment or other asset; undertaking a business, credit, and industry review; projecting the residual value of the equipment or other asset; pricing the investment; and documenting the transaction. 1505 Capital requires sufficient financial information on the lessee, end-user, guarantor, or any other participant or counterparty to enable it to make an informed decision regarding their ability to perform their contractual obligations. 1505 Capital typically analyzes the following information (either directly or through reports prepared by its sub-advisors):

- Audited financial statements for the last two years, if available
- Unaudited financial statements for the latest completed quarter
- Budget or forecast for the latest fiscal year
- Confirmation that existing customers are current with their payments or proposals clearly demonstrating how arrearages will be made current
- Details of current levels of exposure within existing transactions aggregated with the new proposal
- Details of existing credit facilities, the remaining availability, and any financial covenants affecting the counterparty, lessee, end-user, guarantor, or other parties

Additional information may be analyzed, when relevant, to assist in the assessment of the potential creditworthiness of a lessee or other counterparty including:

- Its organizational structure
- Its management structure and an overview of the experience of the key members of the management team
- Its current business plan
- Its marketing plan and any intelligence on its market share, market penetration, and major competitors
- An analysis of its strengths, weaknesses, opportunities, and threats
- An overview of its customer base

Many of the recommended Asset-Based Loans will have collateral structured as:

- Full payout or operating equipment leases, or
- Project financings that are secured by, among other things, essential use equipment and/or assets

Overall, 1505 Capital will suggest investment structures it believes will provide clients with the appropriate level of security, collateralization, and flexibility to optimize return on investment while protecting against downside risk. In many cases, the structure will include Registrant's client having direct security in the equipment and/or other asset(s).

1505 Capital also expects to coordinate with its insurance company clients to obtain an NRSRO rating on Asset-Based Loans for its insurance company clients (for which it may charge a fee and/or seek expense reimbursement, as described in Items 4 and 5).

### 3. Broadly-Syndicated (Rated) Fixed-Income, Credit, and Asset-Backed Investments

1505 Capital, either directly or through key sub-advisors, seeks to access rated, CUSIP-ed instruments fixed-income, asset-backed credit, and other securities that broadly trade in institutional markets. The primary focus is on NAIC 1, 2 and 3 instruments, with limited exposure further down the credit spectrum.

Investments in highly rated, broadly syndicated investments is expected to serve an important function in 1505 Capital's insurance company client portfolios in terms of liquidity management and matching its investment pipeline with its issuance pipeline.

#### Other: Derivatives

1505 Capital may periodically buy or sell forwards, futures, options, or other derivative instruments primarily to hedge foreign exchange risks as long as they are consistent with the client investment guidelines, and, for insurance company clients, consistent with such clients' derivative use plans filed with state insurance regulators.

#### Risk of Loss

All investments involve a degree of risk including, without limitation, loss of investment and illiquidity that clients should be prepared to bear. Clients should consider the following risk factors before entering into an Investment Management Agreement and authorizing discretionary authority or approving any investment. While this list below is intended to be representative of common risks assumed, there are numerous additional risks, not all of which may be foreseen or enumerated below or which may arise in the future.

#### General Risks

Limited Operating History: Registrant was formed in August 2018 and has a limited operating history. Although 1505 Capital's principals have experience in asset management or advisory services across the various Strategies and experience in managing insurance company portfolios, this experience was prior to the formation of the Registrant. However, in evaluating the Registrant as an investment advisor, please consider that any past performance is not an indication or a guarantee of future results. Further, Registrant cannot predict whether its intended operations will meet the stated objectives for its clients.

Conflicts of Interest: Since Registrant proposes to invest on behalf of multiple clients (some of which it has management or similar control positions in), there are potential conflicts associated with allocating investment opportunities. In addition, key professionals of the Registrant may have (direct or indirect) control positions in certain clients. Potential clients should carefully consider all potential conflicts before engaging the Registrant.

General Credit Risk: The failure of an obligor to pay interest or principal in a timely manner, or that negative perceptions of the obligor's ability to make such payments, will cause the value of the investment to decline. Obligors with debt securities rated below investment-grade (or unrated) are especially susceptible to this risk. 1505 Capital looks to source investments that can provide various credit and structural enhancements to attempt to mitigate credit exposure to any single

company or asset class. Examples include collateral, subordinated capital, guarantees from sponsors, or similar credit enhancements.

General Sector Risk: The value of investments focused in a particular industry or market sector will be highly sensitive to financial, economic, political, and other developments affecting that industry or market sector, and conditions that negatively impact that industry or market sector will have a greater impact as compared to an account that does not have its holdings similarly concentrated.

General Interest Rate Risk: The value of fixed income securities usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the value of existing instruments, and rising interest rates generally decrease the value of existing instruments. Changes in value usually will not affect the amount of interest income, but will affect the value of the investment. Interest rate risk is generally greater for investments with longer maturities.

Certain fixed income securities pay interest at variable or floating rates. Variable rate securities reset at specified intervals, while floating rate securities reset whenever there is a change in a specified index rate. The market prices of these securities may fluctuate significantly when interest rates change, in particular for long-dated maturities.

General Liquidity Risk: Mortgage Loans and Asset-Based Loans are substantially all private placements. Many Broadly-Syndicated Investments will be issued under Rule 144A or otherwise. In each case, these investments will have transfer restrictions and are substantially less liquid than many other securities. Mortgage Loans and Asset-Based Loans will be expected to have a highly limited (if any) secondary market. However, 1505 Capital will seek to match the general maturity profile of investments to its clients' liquidity requirements.

Structural Risk: The impairment of the value of collateral or other assets underlying an asset-backed security, such as that resulting from non-payment of loans, may result in a reduction in the value of such security and losses. Early payoffs in the loans underlying such securities may result in receiving less income than originally anticipated.

Foreign Investing Risk: Investment in assets and equipment outside of the United States and investing in instruments of non-U.S. companies involves special risks and considerations not typically associated with investing within the United States. Laws in other countries may not provide the same rights and remedies for asset and equipment financiers and it may be difficult to recover collateral in a foreign market in the event of a default. The values of non-U.S. securities may be more volatile than those of U.S. securities. The values of non-U.S. securities are subject to economic and political developments in their respective countries and regions, or where the securities are traded. Values may also be affected by restrictions on receiving the investment proceeds from a non-U.S. country.

Emerging Market Risk: The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Emerging market countries typically have economic and political systems that are less fully developed, and can be expected to be less stable than those of more developed countries. Investments in emerging markets may be considered speculative.

Although 1505 Capital will make investments in non-USD investments and where the assets are located outside the U.S., if in accordance with a client's investment guidelines. 1505 Capital typically focuses on investments in the United Kingdom, Western Europe, Australia, and other developed economies, and expects to have limited (if any) investment activity in emerging markets. 1505 Capital may periodically buy or sell forwards, futures, options, or other instruments to hedge non-USD exposure, as long as consistent with the client investment guidelines.

### **Strategy-Specific Risks**

#### **1. Select Risks associated with Non-Owner Occupied Mortgage Loans**

**General Risks:** Investing in non-owner occupied 1st lien mortgages (as with any investment linked to U.S. real estate) is subject to cyclicalities and other uncertainties. There can be no assurance as to these investments' performance in a weaker market or weakened economy similar to the downturn in 2008-2010. The cyclicalities and leverage associated with real estate related investments have historically resulted in periods of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. The non-owner-occupied mortgage loans expected to be originated or acquired (or participated) to 1505 Capital's clients (either directly or through 1505 Capital's sub-advisors) are expected to be secured by or otherwise relate to properties of varying types, geographic locations, owners, tenants, and other factors which could make such investments susceptible to particular types of risks relating to such factors, including local economy, real estate market conditions, special hazards, and competition. The value of commercial real estate, and multi-family buildings in particular, depends significantly on the amount of income it generates (or is capable of generating), which can be affected by many factors including but not limited to tenant mix, success of tenant businesses, property location and condition, competition from comparable types of properties, and real estate tax rates and other operating expenses. Additionally, adverse changes in the real estate market increase the probability of loan default as the equity in the property declines. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged, the mortgaged property is poorly managed, or because the mortgaged property has a high vacancy rate or is in need of renovation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring as described below.

In the event of any default under a real estate loan held on behalf of a client, the client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the real estate loan, which could have a material adverse effect on the client's returns. It is possible that 1505 Capital may find it necessary or desirable to foreclose on some, if not many, of its real estate loans. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims, and defenses against a lender, including, without limitation, numerous lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate.

Illiquidity Risks: Direct investments in non-owner-occupied mortgages is a “buy and hold” strategy since there is a highly limited secondary market. Insurance companies are ideally suited for this investment strategy – and in particular since the terms of the mortgages are typically less than three years and are therefore highly correlated to the terms of the insurance liabilities (e.g., term MYGA policies), illiquidity is a reasonable trade-off for the yield-return profile of these assets.

Sponsor Execution Risks: Many direct investments in non-owner-occupied mortgages will involve rehabilitation or construction elements which rely heavily on a sponsor’s ability to execute its plan for the property. 1505 Capital seeks to minimize this risk by focusing on experienced sponsors (some of whom have been borrowers in prior transactions to which 1505 Capital or its sub-advisors were party), initial due diligence (including on the proposed budget and local markets), project monitoring, as well as having general collateral coverage.

## 2. Select Risks Associated with Direct Asset-Based Loans

Default Risks: Leases are generally structured as triple net “hell or high water” leases, under which the end user is responsible for all costs associated with using and maintaining the asset including, without limitation, payment of all taxes levied on the assets, insurance, and necessary repairs. However, in the event of default, the investor becomes the title owner of the asset and therefore is responsible for the payment of all costs incident to ownership.

Illiquidity Risks: Investing in business-essential assets subject to lease usually requires holding the investments for the lease term. Even after the lease has ended, there can be no assurance that the investment can be liquidated in a timely fashion. Supply and demand may impact the ability to sell the assets in the open market as well as the amount of sale proceeds that may be received.

Lack of Diversification Risks: Although the maximum investment in one asset is generally limited as per each client’s investment guidelines, there is no limit on investment by industry or sector. Uncertainties associated with the equipment leasing and financing industries may have an adverse effect on investments.

Leverage Risks: Fluctuations in prevailing interest rates will affect investments because the cost of capital as reflected in interest rates is a significant factor in determining the market rate for leases. Higher interest rates will reduce the yield on leveraged transactions and limit the number of potential transactions due to a corresponding reduction in the value of fixed rate leases and secured financing.

Asset Value and Collateral Risk: 1505 Capital cannot assure that its asset value assumptions will be accurate or that the equipment or other assets will not lose value more rapidly than anticipated. Substantial declines in market value could result in an investment being under-collateralized. This could, amongst other factors, result in a principal loss.

Asset values of equipment or other pool of collateral assets depend on numerous factor that are beyond Registrant’s control, including: (i) the desire of the end-user to keep the equipment; (ii) cost of comparable equipment at that time; (iii) condition of the equipment; (iv) development of new technologies making the equipment obsolete; and (v) secondary market supply and demand.

Sponsor Risk: While 1505 Capital will make substantial efforts to due diligence and monitor a sponsor's activities, in general, sponsors engaged in specialty finance may be thinly capitalized and recourse to the sponsor may be limited.

Structural Risk. Depending on the structure, defaults may result in, or may be the result of, a bankruptcy of the sponsor and therefore be subject to a judicial stay or other similar court proceeding. Although investments are collateralized, delays in taking possession of collateral may result in impairment of loss of principal.

### 3. Select Risks Associated with Broadly Syndicated (Rated) Fixed-Income, Credit, and Asset-Backed Investments

Risks in syndicated investments are both asset-specific (typically related to the obligor's credit strength), as well as risk due to the general credit and interest-rate environment.

Impairment / Default Risks: Syndicated Investments tend to be either single-obligor credit instruments or investments linked to pools of obligors. As such, there is exposure to credit risk of those obligors.

Spread / Interest Rate Risks: Syndicated Investments may be fixed- or floating-rate. As such, there will be price fluctuation based on the prevailing interest rates in the market and/or prevailing spreads to key indices.

Downgrade Risks: Potential or actual downgrades of Broadly Syndicated Investments can occur due to reductions in an obligor's ability or perceived ability to perform. Downgrades tend to result in a reduction in market value. For insurance company "buy & hold" accounts, the mark-to-market risk is partially mitigated by the use of statutory accounting; however, downgrades will result in less capital efficiency for insurance accounts.

## **Item 9 – Disciplinary Information**

There are no pending criminal or regulatory proceedings and no civil claims against 1505 Capital or its management. Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of 1505 Capital or impact the integrity of its management.

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

Except as disclosed below, 1505 Capital does not have any other financial industry activities or affiliations.

1505 Capital's related parties include:

- Ironbound Financial Services Inc
- Vespoint LLC
- Ironbound Financial Holdings LLC
- Xenith LLC
- Midwest Holding Inc.
- Ironbound Insurance Company ("Ironbound")
- American Life & Security Corp. ("ALSC")



The following members of management are portfolio managers for 1505 Capital:

Richard Vecchiolla

Michael Minnich

Michael Salem (collectively, the “Senior Portfolio Managers”)

The senior portfolio managers have (direct or indirect) controlling interests in and are officers and/or directors of Ironbound and ALSC, each of which are also clients of 1505 Capital.

1505 Capital’s only clients will be institutional accounts and insurance companies.

1505 Capital may recommend broker-dealers or investment advisers to its clients where 1505 Capital receives compensation directly or indirectly, provided that in certain circumstances an Investment Management Agreement or a Sub-Advisory Agreement may require approval of certain broker-dealers or investment advisers, as applicable.

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

A copy of 1505 Capital’s Code of Ethics will be provided to any client upon request.

1505 Capital’s Code of Ethics sets forth standards of conduct expected from advisory personnel, addresses conflicts that arise from personal trading by advisory personnel, and requires compliance with Federal securities laws. The Code of Ethics addresses conflicts of interest, personal trading, gifts, and the prohibition of using non-public material information for personal gain.

#### **Cross-Trading Policy**

1505 Capital has adopted a Cross-Trading Policy to address any potential conflicts which might arise from effecting trades between client accounts. This policy permits cross-trading between 1505 Capital’s client accounts at fair value, and clients are required to execute a written consent as well as approval from the Chief Compliance Officer.

### **Item 12 – Brokerage Practices**

In the absence of specific written instructions in a client’s investment management agreement, 1505 Capital may have discretion in selecting brokers for client transactions. In the event 1505 Capital manages an account on a discretionary basis, 1505 Capital would expect to seek best execution at the best price available for each trade. 1505 Capital also takes into consideration several factors, such as:

- The broker’s ability to execute the trade
- The size of the trade
- Characteristics of the security
- The quality and reliability of brokerage services
- The overall direct net economic results to the account

1505 Capital may also consider the availability of the broker to stand ready to execute transactions in the future, and the financial strength and stability of the broker. 1505 Capital currently does not participate in soft dollar arrangements. 1505 Capital does not receive client referrals from any broker.

As 1505 Capital expands its client base, it will expect to aggregate orders, when possible in accordance with client guidelines, for the purchase or sale of the same security for all participating accounts (although as described elsewhere herein, many of the investments 1505 Capital acquires for its clients are directly originated, and as a result may not be acquired by all or multiple client accounts). When an order is filled in its entirety, each participating account receives its full allocation at the agreed-upon trade execution price. When an order is partially filled, each participating account receives a pro rata allocation at the agreed-upon trade execution price, subject to certain exceptions including de minimis orders. Transaction costs are shared on a pro rata basis for all participating accounts.

SEC Rule 206(3)-2 of the Investment Advisers Act of 1940 allows an investment adviser, under certain circumstances, to engage in inter-account transactions. If one client of an investment adviser is looking to sell a security in its portfolio and another client of the same investment adviser is looking to purchase that security, this rule permits the investment adviser to do a cross trade between the two accounts. The buy/sale must be at fair market value and with no commissions. Although 1505 Capital currently does not currently engage in inter-account transactions, it expects that in the future, it will only engage in these cross trades when advantageous to, and approved by, clients and with prior approval from the Chief Compliance Officer.

Although 1505 Capital may accept direction from clients regarding which brokers to use, any direction would still be expected to be subject to most favorable execution and best execution for the client.

1505 Capital may direct the purchase of securities on behalf of clients, in secondary market transactions, in public offerings directly from an underwriter, or in privately negotiated transactions with an issuer. Securities purchased in public offerings may be resold shortly after acquisition in the immediate aftermarket to take advantage of price appreciation from the public offering price or for other reasons. Since 1505 Capital's clients tend to be "buy and hold" portfolios, short-term trading of securities is not a key component of their respective investment strategy. However, in limited circumstances where client investments are sold shortly following acquisition, higher portfolio turnover may result leading to higher transactions costs in the portfolio.

Many of 1505 Capital's investments, including substantially all lease investments, are extremely illiquid and will have no available third-party pricing information.

1505 Capital may give advice or take action with respect to any one client account, which may differ from the advice given, or action taken, with respect to another client account. However, 1505 Capital, to the extent practical and over a period of time, allocates investment opportunities to each account on a fair and equitable basis relative to other similarly situated client accounts based on client guidelines and cash availability (as further described in Item 5).

### **Item 13 – Review of Accounts**

Clients' accounts are reviewed quarterly or more frequently if there is any unusual activity or if additional reviews are deemed necessary in 1505 Capital's reasonable judgement.

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

1505 Capital does not receive any economic benefit in any material respect from anyone that is not a client. From time to time Registrant may compensate one or more placement agents in connection with the solicitation of clients. Such placement fees would be expected to be negotiated from time to time in compliance with limitations paid on such fees. Such placement agents could be non-managing members and/or may also seek to do business with, and earn fees or commissions from, Registrant and/or its affiliates. If Registrant were to compensate any person for client referrals, Registrant would seek to comply with the applicable requirements of the Advisers Act.

### **Item 15 – Custody**

1505 Capital shall comply with Rule 206(4)-2 of the Adviser's Act with regard to the custody of client's assets. 1505 Capital does not custody securities for any of its clients. A client should enlist a qualified custodian if they require custodial services.

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

Although currently all accounts are non-discretionary, 1505 Capital expects to be engaged to manage accounts on both a discretionary and non-discretionary basis. It is expected that with respect to discretionary accounts, other than the strategy limitations contained in Investment Management Agreements and Sub-Advisory Agreements, there will be no additional limitations on 1505 Capital's investment discretion – provided that in certain circumstances an Investment Management Agreement or Sub-Advisory Agreement may require approval of certain types of individual investments from the client or investment advisor, or may be required to enter directly into documentation with counterparties / borrowers.

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

1505 Capital would expect to exercise control or enforcement rights on behalf of clients who contract this service via their Investment Management Agreement (although clients may also elect to require their consultation and/or approval prior to exercise). Votes are cast in accordance with predetermined guidelines provided by 1505 Capital, which are based upon the clients' best interests.

As an investment adviser to insurance companies, there may be a definitive situation where 1505 Capital's interest would be directly in conflict with that of a client when exercising control rights related to an investment. In that limited circumstance, 1505 Capital would expect to obtain direction from the client prior to exercising the voting or similar rights.

1505 Capital may act on behalf of its clients in legal proceedings if directed to do so by the client or mandated under the terms of an Investment Management Agreement. Under no situation will 1505 Capital act on behalf of its separate account clients in any legal proceedings, including class actions or bankruptcies involving securities purchased or held in the client account, other than with respect to bankruptcies involving foreclosure on a mortgage investment where expressly directed to do so by the client. Clients may direct 1505 Capital to transmit copies of class action notices to the client or a third party. Upon such direction, Registrant will make commercially reasonable efforts to forward such notices in a timely manner.

#### **Item 18 – Financial Information**

1505 Capital has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients, and 1505 Capital has not sought bankruptcy protection.