

**Pennant Capital Management, LLC**

**June 2019**

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**This brochure provides information about the qualifications and business practices of Pennant Capital Management, LLC (the “Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (908) 516-5800. This information has not been approved or verified by the SEC or by any state securities authority.**

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

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

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#### **Item 4. Advisory Business**

**A. General Description of Advisory Firm.** The Adviser is an investment adviser with an office in Summit, New Jersey. The Adviser commenced operations as an investment adviser in 2001. Alan Fournier is the founder of the Adviser. The Adviser is wholly-owned by Pennant Capital Partners, L.P. ("Pennant Capital Partners"), and Mr. Fournier is the founding limited partner of Pennant Capital Partners and serves as the managing member of its general partner.

**B. Description of Advisory Services.** The Adviser provides investment supervisory services on a discretionary basis to its clients, which include pooled investment vehicles intended for sophisticated and institutional investors.

**C. Availability of Tailored Services for Individual Clients.** The Adviser provides advice to client accounts (the "Funds") based on specific investment objectives and strategies, as set forth in each Fund's governing or offering documents. Investment advice is provided directly to the Funds according to each Fund's particular investment objectives and not individually to the Funds' investors. The Adviser tailors its advisory services to the individual needs and specified investment mandates of each Fund.

**D. Wrap Fee Programs.** N/A

**E. Client Assets Under Management.** As of December 31, 2018, the Adviser had \$265,988,759 of client regulatory assets under management. All of these assets are managed on a discretionary basis.

## **Item 5. Fees and Compensation**

### **A. Advisory Fees and Compensation.**

Compensation received by the Adviser is typically comprised of fees based on a percentage of assets under management and performance-based amounts. Fee calculations are performed by the administrator of each Fund.

#### **Asset-Based Compensation**

The Adviser charges each client a quarterly investment management fee at a rate of 1.5% (reduced to 0.75% effective April 1, 2018) per annum.

Investment management fees are charged each quarter in advance based on the value of each investor's capital account in each Fund on the first day of the quarter. If a new client account is established during a quarter or an investor in a Fund makes an additional capital contribution to its capital account during a quarter, the investment management fee will be charged as of the effective date of the investment management agreement or the date of the additional capital contribution based on the value of the assets as of the applicable date and will be prorated for the number of days remaining in the quarter.

Investment management fees are waived for investors that are members, principals, directors, officers, employees or affiliates of the Adviser. Investment management fees may also be waived or reduced for certain investors of a Fund.

#### **Performance-Based Compensation**

The Adviser or its affiliate, Pennant General Partner, LLC, receives performance-based compensation which is based on the net profits attributable to each investor's capital account in each Fund, payable at the end of each fiscal year or upon redemption. This compensation rate is 20% and is subject to a loss carryforward provision.

Performance-based compensation is waived for investors that are members, principals, directors, officers, employees or affiliates of the Adviser. Performance-based compensation may also be waived or reduced for certain investors of a Fund.

### **B. Payment of Fees.**

The Adviser deducts the asset-based fees from each Fund by instructing the Fund's custodian. Asset-based fees are deducted from the capital accounts of investors in each such Fund at the beginning of each quarter. These fees are aggregated by each Fund and paid to the Adviser.

Performance-based fees are deducted from the capital accounts of investors in each Fund at the end of each fiscal year or upon redemption by a Fund investor and reallocated to the Adviser or its affiliate.

### **C. Other Fees and Expenses.**

Each client of the Adviser generally bears all of its own expenses, including, but not limited to, expenses related to its operations and the investment of its assets. The list below is detailed but does not contemplate every possible expense a client may incur.

To the extent permitted under the applicable offering documents, one or more of the Adviser's clients may bear some or all of the following expenses, in addition to paying investment management fees and performance-based compensation: directors' fees, legal, accounting (including out-sourced accounting and accounting software), auditing and other professional expenses, including any fees paid to third party valuation agents and expenses related to the review of counterparty documentation, the cost of directors

and officers or other insurance for a client and the Adviser, administration expenses, expenses of regulatory compliance, filings and reporting (including but not limited to Form PF, Section 13 and 16 filings) to the extent they are in connection with, relate to or derive from a client or its investment activities, research expenses and investment expenses such as commissions, trading services and support, interest on margin accounts and other indebtedness, taxes, shareholder proxy services, custodial fees, bank service fees, expenses related to trade order management software and other expenses related to the purchase, sale or transmittal of the client's assets. Certain client offering documents also contain a provision in which an investor in a Fund may incur a withdrawal charge of 4% (payable to the Fund) in the event that an investor chooses to redeem its entire capital account balance during a period in which the Adviser or its affiliate invokes a limit on redemption amounts to all investors of a Fund.

Client assets may be invested in money market mutual funds, ETFs or other registered investment companies. In these cases, the Fund will bear its pro rata share of the investment management fee and other fees of the Fund, which are in addition to the investment management fee paid to the Adviser. Client assets may be invested in a master-feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related master fund. In addition, clients will incur brokerage and other transaction costs. Please refer to Item 12 of this brochure for a discussion of the Adviser's brokerage practices.

#### **D. Prepayment of Fees.**

Clients are required to pay the Adviser's investment management fees in advance. The Adviser will refund the unearned portion of any pre-paid management fees if a redemption is made from a client account before the end of a billing period. The Adviser generally determines the amount of the relevant refund on a pro rata basis, based upon the portion of the relevant period during which it provided services.

#### **E. Additional Compensation and Conflicts of Interest. N/A**

## **Item 6. Performance-Based Fees and Side-by-Side Management**

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser's investment personnel may have significant investments in certain client accounts and may be compensated on a basis that includes a performance-based component. When the Adviser and its investment personnel manage more than one client account a potential exists for one client account to be favored over another client account. The Adviser and its investment personnel have a greater incentive to favor client accounts that pay the Adviser (and indirectly the portfolio manager) performance-based compensation or in which the Adviser's personnel have more significant investments.

Certain members or employees of the Adviser may be invested in the Funds. The Adviser, in its sole discretion, may waive or reduce the notice period for such members or employees and, in connection with tax obligations, may permit such members or employees to withdraw a portion of their capital account in the Funds other than on the last business day of each calendar quarter.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts and the allocation of investment opportunities. In addition, the Adviser has implemented procedures relating to the allocation of investment decisions and trading activity to client portfolios to ensure fair and equitable allocation among accounts. In general, the Adviser's portfolio manager determines trade order sizes for each master fund and trades are aggregated across all master funds participating in trade executions of the same security. Executed trades are generally allocated to each master fund pro rata based on the initial purchase or sale order. These areas are monitored by the Adviser's Chief Compliance Officer.

**Item 7. Types of Clients**

The Adviser's clients consist of pooled investment vehicles.

With respect to any client that is a pooled investment vehicle, any initial and additional subscription minimums are disclosed in the offering memorandum for the pooled investment vehicle.

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

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

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental valuation as well as momentum/technical tools and approaches.

The Adviser employs the following investment strategies:

*Buy and Hold.* The Adviser engages in a buy and hold investment strategy wherein the Adviser buys securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.

*Long/Short Equity.* The Adviser's long/short equity strategy focuses on a broad range of equity investment styles, including growth, value and identifying companies undergoing significant change. The Adviser invests in U.S. and non-U.S. equities and across all market capitalizations. Some client accounts may not participate in investment opportunities across all capitalization levels.

*Fundamental Value.* The Adviser engages in a fundamental value investment strategy wherein the Adviser attempts to invest in asset-oriented securities the Adviser believes are undervalued by the market.

*Growth.* The Adviser engages in a growth investment strategy wherein the Adviser attempts to select securities of a company whose earnings the Adviser expects to grow at an above-average rate compared to the company's specific industry or the overall market.

*Hedging.* The Adviser utilizes a variety of financial instruments such as exchange-traded funds, derivatives, options, interest rate swaps, credit default swaps, swaptions, commodities, futures and forward contracts for risk management purposes as well as for profit.

*Leverage.* The Adviser's investment program utilizes a significant amount of leverage which involves the borrowing of funds from brokerage firms and banks in order to be able to increase the amount of capital available for marketable securities investments.

*Option Trading.* The Adviser engages in an option trading investment strategy. Options are investments whose ultimate value is determined from the value of the underlying investment. The Adviser engages in call and put option trading strategies related to individual company positions, commodities and market indices.

*Short Selling.* The Adviser engages in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales as a form of hedging to offset potential declines in long positions and for profit.



## **B. Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies.**

*Commodities.* Commodity investments are affected by business, financial market or legal uncertainties. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on its commodity investments. Prices of commodity investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Adviser's portfolio and the value of its investments. In addition, the value of the Adviser's portfolio may fluctuate as the general level of interest rates fluctuates.

*Hedging.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if the Adviser did not engage in any such hedging transactions.

*Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

*Lack of Diversification.* Client accounts may not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, client portfolios are subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

*Leverage.* Performance may be more volatile if a client's account employs leverage.

*Short Selling Risk.* The Adviser's investment program includes a significant amount of short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

## **C. Risks Associated With Types of Securities that are Primarily Recommended (Including Significant or Unusual Risks).**

*Commodity Futures and Options.* Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a pooled investment vehicle engaging in commodity futures trading. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to such a pooled investment vehicle. Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

*Derivatives.* Swaps and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments

require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or the Adviser. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Illiquid Instruments.* Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio. Further, certain instruments may be non-public companies. Investments in non-public companies will generally be valued at fair market value, calculated by the Adviser or a third party valuation agent. These investments may be extremely difficult to value accurately.

*Non-U.S. Securities.* Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

*Security Futures and Options.* In connection with the use of futures contracts and options, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in the client's account. In addition, the Adviser's investments in security futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.

## **D. Other Operational Risks**

### **Cybersecurity Risk**

The information and technology systems of the Adviser and of key service providers may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the

Adviser and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

### **Item 9. Disciplinary Information**

Neither the Adviser nor any of its employees have been involved in any legal or disciplinary events in the past 10 years that would be material to an investor's evaluation of the Adviser or its personnel.

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

Neither the Adviser nor any of its members is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

The Adviser withdrew its registration with the Commodity Futures Trading Commission as a commodity pool operator in June 2018.

The Adviser and/or its personnel maintain relationships with third-party service providers who invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services to the Adviser and/or the Funds. The Adviser may have a conflict of interest in recommending the retention or continuation of such a service provider, in that the Adviser has an incentive to maintain goodwill between it and the investor/service provider.

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

**A. Code of Ethics.** The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser and its related persons to put the interests of the Adviser’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser’s personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting the Adviser at the address or telephone number listed on the first page of this document. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by access persons.

The Adviser, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

**B. Client Transactions in Securities where Adviser has a Material Financial Interest.** N/A

**C. Investing in Securities Recommended to Clients.** The Adviser and its access persons are permitted to invest in the same securities (or related securities, e.g., warrants, options or futures) that the Adviser and its related persons recommend to clients. Such practices present a conflict where, because of the information an Adviser has, the Adviser or its access persons are in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients’ trades). In addition to affecting the Adviser’s or its related person’s objectivity, these practices by the Adviser or its access persons may also harm clients by adversely affecting the price at which the clients’ trades are executed. Trading in employee accounts will be reviewed by the Chief Compliance Officer and compared with transactions for the client accounts and reviewed against the restricted securities list.

**D. Conflicts of Interest Created by Contemporaneous Trading.** The Adviser or a related person from time to time recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that the Adviser or related person buys or sells the same securities for its own account in accordance with the procedures described above in order to minimize the conflicts stemming from situations where the contemporaneous trading results in an economic benefit for the Adviser or its related person to the detriment of the client. In addition, the Adviser has adopted the aggregation policies and procedures discussed in Item 12 with respect to trade orders.

## **Item 12. Brokerage Practices**

**A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.** The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include listed bids and asks; the opportunity for price improvement; transaction costs; anonymity; liquidity; speed of execution; quality of research; expertise with difficult securities; trading style and strategy; geographic location; frequency of errors; and access to new issues. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser evaluates the broker-dealers used to execute client trades using the foregoing factors.

**1. Research and Other Soft Dollar Benefits.** The Adviser receives research or other products or services other than execution from broker-dealers and third parties in connection with client securities transactions. Such research or other products or services may be furnished by the broker-dealer or, in some cases, paid for by the broker-dealer and furnished by a third party. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser periodically reviews and evaluates its soft dollar practices to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

The Adviser may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for clients.

The Adviser does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Because the Adviser uses its research to analyze investment opportunities and provide services across all client accounts, certain clients may disproportionately benefit directly or

indirectly, immediately or over time, from research paid with soft dollars partially or entirely generated by other clients. During the Adviser's last fiscal year, as a result of client brokerage commissions (or markups or markdowns), the Adviser and/or its related persons used soft dollars to pay for research (e.g. reports and consultations on particular industries and companies, market and economic surveys and analyses), market data services and software, exchange access fees, software used to transmit orders, clearance and settlement in connection with trades, etc.

In some instances, the Adviser obtains a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). Such determination will generally be based on the actual use of the product or service by the Adviser's personnel or other appropriate allocation methodology determined by the Adviser. The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources or treated as a fund expense, as applicable. The determination of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and clients.

While it is not currently the Adviser's practice, the investment transactions for clients and the use of commissions by the Adviser from them may be outside the safe harbor provided by Section 28(e) and applicable regulatory interpretations if they would otherwise be a client expense. Even when investment transactions for clients are outside the Section 28(e) safe harbor, the commissions paid will be used for the acquisition of Section 28(e) types of research and brokerage.

**2. Brokerage for Client Referrals.** From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to private funds managed by the Adviser or recommend these private funds as an investment to clients. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities (i.e., introduction of potential investors for the Funds), if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

**3. Directed Brokerage.** N/A

**B. Order Aggregation.** The Adviser aggregates trades when such aggregation is expected to be in the best interest of all participating clients. The Adviser often purchases or sells the same security for its clients contemporaneously and using the same executing broker. It is the Adviser's practice, where possible, to aggregate client orders for the purchase or sale of the same security at or near the same time for execution using the same executing broker. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the initial purchase or sale order of each Fund. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated pro rata based upon initially intended allocations. Depending on the investment strategy pursued and the type of security, this may not result in a pro rata allocation to all participating Funds. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating Funds will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice.



### **Item 13. Review of Accounts**

**A. Frequency and Nature of Review.** Each Fund is reviewed by the portfolio manager of the Adviser periodically to determine whether securities positions and position sizing should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Fund.

**B. Factors Prompting a Non-Periodic Review of Accounts.** N/A

**C. Content and Frequency of Regular Account Reports.** A client's investors receive reports from the client or Adviser pursuant to the terms of each client's offering memoranda or as otherwise described in the offering document of the client. The Adviser generally provides annual audited financial statements to the Funds within 120 days of the applicable Fund's fiscal year end. Investors in the Funds receive periodic account statements from an external administrator on a quarterly basis as applicable. Additionally, investors receive the Fund's audited financial statements within 120 days and if applicable, the information necessary for an investor to complete its annual federal income tax returns.

**Item 14. Client Referrals and Other Compensation**

**A. Economic Benefits Received from Non-Clients for Providing Services to Clients. N/A**

**B. Compensation to Non-Supervised Persons for Client Referrals. N/A**

**Item 15. Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks; however, the Adviser is deemed to have custody because its affiliate serves as the Investment Manager or General Partner of the Funds. Investors in the Funds do not receive statements from the custodian. Instead, the Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of the respective Fund's fiscal year end.

## **Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to its clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

The Adviser or its affiliate has entered into an investment management agreement or other agreement with each client pursuant to which the Adviser was granted discretionary trading authority.

The Adviser has the authority to determine: (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Investment decisions are made at the client account level by the respective portfolio manager(s) of the Adviser. The Adviser has adopted the aggregation policies and procedures discussed in Item 12 with respect to trade orders.

The Adviser and its portfolio manager may consider the following factors, among others, in allocating investments among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the target position size of each participating account), these factors may lead the Adviser or a portfolio manager to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a pari passu basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

The Adviser will seek to allocate initial and secondary public offerings in a manner that is fair to all clients, considering client account's size, size of the offering, diversification, cash availability, eligibility to participate (per FINRA Rules 5130 and 5131), investment objectives, and any other relevant factors.

The Adviser may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Adviser to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Adviser has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Adviser or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Adviser or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar accounts that are subject to ERISA. The Adviser will generally not effect a cross transaction between client accounts if it would constitute a principal transaction. A principal transaction occurs when an investment adviser, acting for its own account (or a fund that is comprised of 25% or more of principal capital), buys a security from, or sells a security to, a client's account. Such transactions will instead be executed through an unaffiliated broker-dealer in a market transaction to which brokerage commissions apply.

The Adviser or its related persons have and may in the future enter into agreements, or "side letters," with certain prospective or existing investors in a client account whereby such Investors may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for a given client account. For example, such terms and conditions may provide for special rights to make future investments in the account or other investment vehicles or accounts; special redemption or withdrawal rights relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the investor and/or other terms; rights to receive reports on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio

positions); and such other rights, standards, waivers or modifications as may be negotiated by the Adviser and such investors. The modifications are solely at the discretion of the Adviser and may, among other things, be based on the size of the investor's investment in the account or an affiliated investment entity, an agreement by an investor to maintain such investment in the account for a significant period of time, or other similar commitment by an investor.

The Adviser may, from time to time, permit certain individuals and/or entities to co-invest alongside client accounts. The decision as to whether to make co-investments and to whom such co-investment opportunities are offered is made by the Adviser in its sole discretion, and no investor has a right to participate in co-investments. Co-investments may result in the investment in, or the disposal of, shares of a particular investment by co-investors at the same time or on the same terms as other client accounts. To the extent employees are permitted to participate in co-investments, co-investment opportunities will only be offered to employees after such client accounts have received their target investment allocations. Co-investors will generally bear their pro rata portion of the expenses related to the co-investment.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, the Adviser's error correction procedure is to ensure that clients are treated fairly. The Adviser has discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of the Adviser's gross negligence or willful misconduct, trade errors will be corrected by the Adviser as soon as practicable, in a manner such that the client incurs no loss. Trade errors that result other than by breach of the standard of care above are borne by the client account and will also be corrected by the Adviser as soon as practicable.

## **Item 17. Voting Client Securities**

**A. Policies and Procedures Relating to Authority to Vote Client Securities.** The Adviser has been delegated proxy voting authority on behalf of its clients and has adopted proxy voting policies and procedures that are designed to ensure that proxies are voted in the best interests of its clients. The general policy is to vote proxy proposals, amendments, consents or resolutions in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives. While the Adviser believes that in most cases this is attained by voting with the Management Recommendations, its procedures allow for voting against management if the Adviser believes the vote will serve its clients' best interests. The Adviser will try to assess any material conflicts between its interests and those of its clients with respect to proxy voting. So long as there are no material conflicts of interest identified, the Adviser will vote proxies according to the policy set forth above. The Adviser may also elect to abstain from voting if it deems such abstinence in its clients' best interests.

The Adviser's clients are not permitted to direct their votes in a particular solicitation.

If a material conflict of interest between the Adviser and a client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. For example, the Adviser may engage the services of an outside proxy voting service or consultant who will provide an independent recommendation on the direction in which the Adviser should vote on the proposal. The Adviser does not make any qualitative judgment regarding its client's investments.

Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted a client's proxies by contacting the Adviser at the address or telephone number listed on the first page of this document.

The Adviser may utilize the services of a third party in order to file and manage class action or other legal claims on behalf of our clients. Such third parties may collect fees based upon a percentage of funds recovered in such claims. It is the Adviser's policy to treat distributions of any proceeds in the same manner that it would of dividends. As such, investors in the Funds will receive a portion of the proceeds only if they are invested in the Funds at the time of the distribution. Investors who have fully redeemed from the Funds will not participate in any proceeds received from any recoveries after they have redeemed.

**B. No Authority to Vote Client Securities and Client Receipt of Proxies.** N/A

**Item 18. Financial Information**

The Adviser has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

**Appendix: Item 2. Material Changes**

The Adviser notified all investors in March 2018 that it would liquidate the Funds and return remaining capital to investors. As of March 2019, client assets under management include the Funds' remaining investment in a private company and cash reserve balances that will be used to cover remaining expenses through the date of full liquidation of the Funds. As described in Item 5, the Adviser reduced its quarterly investment management fee from a rate of 1.5% to 0.75% per annum effective April 1, 2018 in conjunction with the liquidation of the Firm's pooled investment vehicles. Effective June 2019, Mark J. Plevniak assumed the role of Pennant's Chief Compliance Officer.