

**Item 1 - Cover Page**

***Brochure***

**Form ADV – Part 2A**

Stevens Capital Management LP  
201 King of Prussia Road, Suite 400  
Radnor, Pennsylvania 19087  
United States of America  
610-971-5000  
610-971-5050 (fax)  
jeffc@scm-lp.com

March 26, 2019

**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF STEVENS CAPITAL MANAGEMENT LP. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT JEFF CAMERON, GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER AT 610-971-5000 OR JEFFC@SCM-LP.COM. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR BY ANY STATE SECURITIES AUTHORITY.**

**ADDITIONAL INFORMATION ABOUT STEVENS CAPITAL MANAGEMENT LP IS ALSO AVAILABLE ON THE SEC’S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.**

**STEVENS CAPITAL MANAGEMENT LP IS REGISTERED WITH THE SEC AS AN INVESTMENT ADVISER; HOWEVER, THIS REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.**

## **Item 2 - Material Changes**

This brochure was prepared for Stevens Capital Management LP's ("SCM") annual updating amendment. SCM's previous brochure was completed on September 14, 2018. In this annual updating amendment, SCM has made the following changes, among other clarifications and updates, none of which it considers to be material:

Item 4. Updated SCM's assets under management.

Item 5. Added the disclosure section about tax expenses.

Item 8. Added the disclosure section on Cryptocurrency Futures Contracts

### **Item 3 - Table of Contents**

<b>Item 1 - Cover Page.....</b>	<b>i</b>
<b>Item 2 - Material Changes.....</b>	<b>ii</b>
<b>Item 3 - Table of Contents.....</b>	<b>iii</b>
<b>Item 4 - Advisory Business .....</b>	<b>1</b>
<b>Item 5 - Fees and Compensation.....</b>	<b>1</b>
<b>Item 6 - Performance Based Fees and Side-By-Side Management .....</b>	<b>3</b>
<b>Item 7 - Types of Clients.....</b>	<b>3</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>4</b>
<b>Item 9 - Disciplinary Information .....</b>	<b>21</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>21</b>
<b>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>22</b>
<b>Item 12 - Brokerage Practices.....</b>	<b>23</b>
<b>Item 13 - Review of Accounts.....</b>	<b>24</b>
<b>Item 14 - Client Referrals and Other Compensation .....</b>	<b>25</b>
<b>Item 15 - Custody .....</b>	<b>25</b>
<b>Item 16 - Investment Discretion.....</b>	<b>25</b>
<b>Item 17 - Voting Client Securities.....</b>	<b>26</b>
<b>Item 18 - Financial Information .....</b>	<b>26</b>

#### **Item 4 - Advisory Business**

SCM is a Delaware limited partnership that was formed in April 2002 by Matthew S. Tewksbury. Mr. Tewksbury serves as SCM's Chief Executive Officer. SCM is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940 (the "Advisers Act"); such registration does not imply a certain level of skill or training. SCM is registered as a commodity pool operator since January 2009 and a commodity trading advisor since June 2003 with the U.S. Commodity Futures Trading Commission (the "CFTC") and is a member of the National Futures Association (the "NFA"), a U.S. self-regulatory organization supervised by the CFTC. SCM currently employs approximately 61 professional and administrative staff in its office located at 201 King of Prussia Road, Suite 400, Radnor, Pennsylvania, 19087.

SCM is the investment, portfolio and administrative manager of Tewksbury Investment Fund ("TIF"). SCM is also the investment, portfolio and administrative manager of Hamilton Fund Ltd. ("HFL"), a Bermuda company that invests all of its capital into TIF. HFL does not hold any portfolio investments other than the shares of TIF (TIF and HFL may be referred to collectively as the "Funds").

TIF is an open-ended Bermuda company that trades and invests in a wide and substantially unrestricted variety of financial markets and instruments. SCM is the principal adviser and trader for TIF and has overall responsibility for all of TIF's trading activities, although SCM delegates investment discretion to a number of internal as well as external traders. SCM has a sub-advisory and contractual services agreement with Waterfront International Ltd. ("Waterfront"), a company based in Toronto, Canada, as further described under Item 8 and Item 10. SCM's staff includes technical support personnel and a team of financial analysts to support its investment advisory and trading activities. SCM is also responsible for certain aspects of TIF's administrative operations, which broadly include: (1) administrative, legal and regulatory compliance; and (2) development and implementation of accounting systems, procedures and policies. Other than serving as the investment, portfolio and administrative manager of TIF and HFL, SCM currently does not offer any other financial or advisory services.

The general partner of SCM is Adams Holdings LLC ("Adams"), a company owned by Matthew Tewksbury and his family. Mr. Tewksbury is the Managing Member of Adams. SCM's limited partners are Mr. Tewksbury and Adams. SCM has only two clients – TIF and HFL. SCM has full discretion in investment decisions made on behalf of TIF. Investment advice is provided directly to TIF according to its particular investment objectives and not individually to the Funds' shareholders. As of December 31, 2018, SCM manages, on a discretionary basis, U.S. \$1,881,263,749 in client assets. SCM does not manage any client assets on a non-discretionary basis.

#### **Item 5 - Fees and Compensation**

SCM receives a management fee (the "Management Fee") equal to the annualized rate of 2.5% of the net asset value ("NAV") of each shareholder's shares in TIF as of the beginning of each month, deducted monthly in arrears at the end of each month from TIF. For purposes of calculating the Management Fee, NAV is not reduced by any Incentive Fee (defined below) or by the Management Fee. SCM's Management Fee is not negotiable.

SCM is paid performance fees (the "Incentive Fee") as of : (i) the end of each calendar quarter; and (ii) each other date on which such Shareholder redeems all or a portion of its Shares. The Incentive Fee is equal to 30% of any New Appreciation (described below) then attributable to each tranche (described below) of shares in TIF. New Appreciation is calculated separately with respect to each tranche. Incentive Fees are not negotiable.

For purposes of calculating the Incentive Fee, "New Appreciation" is the increase, if any, in the cumulative "Appreciation" attributable to each tranche since the previous date on which Incentive Fees were paid in respect of such tranche (the "High Water Mark" with respect to such tranche). "Appreciation" includes all realized and unrealized profit earned by TIF from all sources, including dividends and short interest rebates, as well as income and net asset value growth in OTIP and other investments. However, interest income earned on TIF's assets invested directly (as opposed to indirectly through OTIP) in short-term, low risk, interest-bearing accounts and U.S. Treasury Bills is not included in calculating "Appreciation."

The Management Fee reduces "Appreciation" and "New Appreciation". Incentive Fees do not themselves reduce cumulative "Appreciation" or "New Appreciation".

The fact that SCM is eligible to receive the Incentive Fee relating to the performance of TIF may create an incentive for SCM to trade and invest TIF's portfolio in a riskier or more speculative manner than would be the case in the absence of such compensation. In addition, the Incentive Fee received by SCM is calculated on the basis of the unrealized, as well as the realized, gains and losses of TIF. As a result, the Incentive Fee could be payable to SCM in respect of unrealized gains of TIF that may never be realized.

Since the Incentive Fee is calculated separately with respect to each tranche of shares, a shareholder that makes multiple investments in TIF could be subject to an Incentive Fee even though such shareholder's overall investment in TIF has declined in value.

TIF allocates significant assets to external investment advisers and commodity trading advisers. SCM has committed, through its Outside Traders Investment Program ("OTIP"), a department within SCM that selects outside investment managers, a substantial portion of TIF's assets to "outside" investment managers unaffiliated with TIF or SCM. The fees of the OTIP managers vary widely, including management fees currently ranging between 1%-4% per annum and incentive fees currently ranging between 12.5%-30%, calculated monthly, quarterly and/or annually. SCM analyzes a prospective OTIP manager's fee structure relative to SCM's risk and reward analysis of such trader, prior to making any investment. Capital allocated to OTIP will be subject to a "layering" of fees, as OTIP advisers or managers themselves charge incentive or performance-based fees and management fees in addition to the Incentive Fee and Management Fee paid by TIF to SCM. The advisory fees paid in respect of TIF's investments in OTIP are not credited against the Incentive Fee and Management Fee paid by TIF. Additionally, certain OTIP funds may impose redemption charges which will be borne by TIF.

SCM is authorized to allocate whatever portion of TIF's assets to OTIP that SCM deems appropriate. OTIP investments are directed by portfolio managers independent of SCM. SCM is not limited in the types of managers it may choose in OTIP, and SCM may change managers, reallocate assets and invest on such terms as SCM deems appropriate. Shareholders of TIF are

not notified of any such changes. Fees paid to independent OTIP managers represent a significant transaction cost.

TIF incurs substantial transaction costs in addition to Management Fees and Incentive Fees. Certain of the strategies employed by TIF require frequent trading, increasing portfolio turnover, brokerage commissions and other transaction fees and expenses. As a result, the expenses of TIF may represent a higher percentage of net assets than may be the case with many other private investment funds. These transaction costs have a number of components, including (without limitation): brokerage commissions, floor brokerage commissions, bid/ask spreads, exchange fees, sales fees and regulatory fees.

TIF borrows to leverage its proprietary trading, and many of the OTIP traders with which TIF invests leverage their portfolios as well. TIF bears, directly or indirectly, the costs of such borrowings.

A number of the investments and financial instruments in which TIF invests and/or trades are subject to significant taxes in the jurisdictions in which the issuers of such investments operate and/or in which such investments and/or financial instruments are traded. These taxes directly reduce TIF's returns on such investments and instruments.

SCM does not "pass through" any of its own costs to TIF. All ordinary administrative and operational costs incurred by SCM are paid by SCM. See Item 12, *Brokerage Practices*, for additional information regarding brokerage.

TIF owns Rand Financial Services, Inc. ("Rand Financial"), a U.S. futures commission merchant. TIF's investment in Rand Financial has substantial operating costs.

HFL does not pay any fees or expenses directly. All of HFL's ordinary fees and expenses are incurred indirectly as a TIF shareholder. HFL pays no fees to SCM.

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

SCM advises two clients, TIF and HFL. HFL invests all of its assets in TIF. Thus, there is no side-by-side management of funds with, and no conflict created by, disparate performance fee arrangements.

#### **Item 7 - Types of Clients**

SCM provides investment advice to two clients, TIF and HFL, both of which are private investment vehicles. TIF and HFL shareholders may include, but are not limited to, high net worth individuals, employees or individuals affiliated with SCM, trusts, partnerships, corporations and other business entities. The minimum initial subscription is U.S. \$1,000,000.00, which may be waived in the discretion of TIF's Board of Directors. The minimum subscription amount that may be purchased by employees or associates of SCM is U.S. \$5,000. SCM does not currently anticipate providing services to any other type of clients in the future.

TIF, in consultation with SCM, has entered into and may in the future enter into additional agreements (sometimes referred to as “side letters”) with certain Shareholders whereby such Shareholders may be subject to terms and conditions that could be seen by other Shareholders as being more advantageous than and/or different than those set forth in this document. For example, such terms and conditions may provide for the right to meet with or have access to key employees of SCM for due diligence purposes, rights to reports generated by third party risk aggregators (at such Shareholder’s expense) in order to monitor their overall exposure to particular industries, sectors and markets and for other risk assessment purposes and such other rights as may be negotiated by TIF, in consultation with SCM. The modifications are solely at the discretion of TIF, in consultation with SCM, and may, among other things, be based on the size of the Shareholder’s investment in TIF. The laws governing such side letters may vary from side letter to side letter. TIF will have no obligation to disclose such arrangements or to offer such additional rights, terms or conditions to all of the Fund’s Shareholders.

TIF will not enter into side letters that provide any Shareholder with: special redemption rights, relating to frequency or notice; or a reduction in or change to the frequency of calculation of Management Fees or Incentive Fees to be paid by the Shareholder to SCM.

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

### ***Introduction***

Currently, SCM’s three sources of income, expenses, gains and losses in advising TIF are as follows: (1) proprietary trading programs; (2) OTIP; and (3) interest income, which includes income from currency hedging transactions. In addition, SCM oversees TIF’s ownership of Rand Financial, a futures commission merchant that has historically contributed to TIF’s profitability in part by reducing its U.S. futures trading execution costs. These sources of income and associated methods of analysis, investment strategies and risk of loss are described in more detail below.

SCM trades and invests in a virtually unlimited variety of investment instruments in markets throughout the world on behalf of TIF. SCM has the flexibility, on behalf of TIF, to utilize leverage to make investments in instruments both on exchanges and in privately negotiated transactions and may hold long and short positions in such instruments.

SCM's proprietary trading programs involve frequent trading. Due to the high volume of trading, TIF pays transaction costs materially in excess (as a percentage of its NAV) of those paid by many other investment funds. TIF's transaction costs have a number of components, including (without limitation): purchase commissions, floor brokerage commissions, bid/ask spreads, exchange fees, sales fees and regulatory fees. Transaction costs vary widely depending upon the asset class being traded, and the overall transaction costs paid by TIF fluctuate from time to time depending on the volume of TIF's trading activity. Transaction costs negatively impact TIF's performance.

## *Methods of Analysis and Investment Strategies*

### **Use of Proprietary Trading Programs:**

SCM generally employs proprietary computerized statistical methods using an extensive database of market-related data – including prices, volume, volatility, open interest and other market statistics in the development and monitoring of trading strategies as described further below. SCM develops computer programs to search for patterns in data and develops trading strategies in an attempt to exploit those patterns. SCM's trading decisions are based on a combination of these computer systems and the market judgment and experience of its management, analysts and traders. SCM's methodology is predominantly systematic. Trading decisions require the exercise of judgment by SCM in the evaluation of trading methods used, in their possible modification from time to time and in their implementation.

Trading strategies include the following:

- Multi-Strategy Approach—there are no material limitations on the instruments, markets or countries in which the Funds may invest or on the investment strategies that may be employed;
- Relative Value Strategies—involves the portfolio manager's effort to exploit relative mispricings among interrelated instruments;
- Event-Driven Strategies—involves investments in positions whose profitability depends on the result of a significant corporate event, e.g., a merger, tender offer, exchange offer or liquidation;
- Directional Trading Strategies—designed to profit from forecasting absolute price movements in a particular instrument; and
- Hybrid and Other Strategies—involves a combination of elements of more than one of the foregoing general strategies.

### **OTIP:**

In addition to the use of proprietary computer trading programs, SCM's general investment objective is to attempt to provide shareholders with asset appreciation through investing with unaffiliated investment managers who have demonstrated an ability to achieve capital appreciation while attempting to maintain a controlled level of risk. OTIP investments are directed by portfolio managers independent of SCM, incorporating a "fund of funds" component into TIF's overall portfolio. OTIP investments involve the allocation of capital to unaffiliated managers through investments in managed accounts or interests in limited liability entities. OTIP investments are separate and distinct from SCM's proprietary trading. SCM has no direct control over OTIP's managers.

A cornerstone of SCM's investment approach is evaluating the capabilities of OTIP's managers and the investment strategies they implement. SCM then uses that information in conjunction with other factors including, but not limited to, anticipated risks, rewards and correlation among



investment strategies, to construct a diversified portfolio of OTIP investments that SCM believes have the potential to provide TIF with attractive, risk-adjusted returns.

In selecting a manager for OTIP, SCM considers a number of factors including, but not limited to, the following: amount, level and type of trading experience of the manager; trading methodology of the manager; effective risk management; compliance culture of the manager; and historical trading results of the manager. SCM may allocate capital to managers that lack historical track records but, in SCM's judgment, offer exceptional potential.

A significant portion of TIF's capital is available to be allocated to OTIP. TIF is unrestricted in the amount of capital that may be invested in OTIP.

### **Interest Income:**

Interest income is earned on the assets deposited as trading margin or held in reserve in short-term interest bearing accounts and U.S. Treasury Bills. Gains or losses resulting from currency hedging transactions are also reflected in interest income.

### **Rand Financial:**

TIF owns Rand Financial, a futures commission merchant and member of the major global futures exchanges. TIF clears a substantial portion of its direct trades on certain futures exchanges through Rand Financial. Rand Financial is an Illinois corporation with its principal place of business at 111 W. Jackson Boulevard, Suite 1250, Chicago, Illinois 60604.

SCM, on behalf of TIF, allocates whatever portion of TIF's assets to Rand Financial as SCM deems appropriate to satisfy capital requirements and regulatory margin obligations relating to TIF's trading. Historically, this has been a small allocation of TIF's assets. TIF's ownership of Rand Financial offers little, if any, liquidity.

### **Risk of Loss**

**Shares of TIF and HFL are highly speculative and illiquid securities and include a substantial risk of loss; they are available only to prospective investors who have such knowledge and experience in finance and business matters that such prospective investors are capable of assuming the risks of such an investment. Investors must be prepared to bear the loss of all or substantially all of their investment in TIF or HFL.**

**The risk factors listed below represent a summary of some of the various risks presented by an investment in TIF or HFL and are not and do not purport to be a complete list of all potential risks involved in an investment in TIF or HFL. *Any person or entity considering making an investment in TIF or HFL should carefully review the "Risk Factors" and "Conflict of Interest" sections of TIF's Confidential Offering Memorandum or HFL's Confidential Offering Memorandum.* The risk factors associated with investments in TIF are equally associated with investments in HFL, as HFL invests all of its assets in TIF.**

In addition to risks associated with TIF's complex and leveraged proprietary computer trading strategies and the other risks described below, the risks associated with an investment in TIF or

HFL include, but are not limited to: (1) market risk; (2) valuation risks; (3) liquidity and position duration risk; (4) the risk of investing a substantial amount of TIF's capital with external managers over which SCM has no control; (5) the risks of relying for both trading signals and trade executions upon computer programs and systems which could have unrecognized internal errors, be sabotaged and/or malfunction; (6) the risk of investing in operating businesses, such as Rand Financial, which can be subject to types of liabilities not generally incurred by passive investment vehicles as well as to material taxes on their operation; (7) portfolio concentration risk; (8) investor concentration risk; (9) operational risks in addition to those related to SCM's reliance on computer programs and systems; (10) the imposition of taxes on TIF's trading in certain jurisdictions and the risk of material increase in such taxes; (11) legal and regulatory risk; (12) documentation risk; (13) systemic risk; (14) credit risk; and (15) settlement risk.

### **Risks Relating to Systematic Trading**

SCM uses proprietary computerized quantitative models that rely on patterns inferred from historical prices and other market related data in evaluating possible trading opportunities. SCM develops trading strategies in an attempt to exploit patterns inferred from the data. However, most quantitative models cannot fully take into account the complexity of the financial and commodity markets and therefore sudden unanticipated changes in underlying market conditions can significantly impact TIF's performance. Further, as market dynamics shift over time, a previously successful model may become outdated - perhaps without SCM recognizing that fact before substantial losses are incurred by TIF. Even without becoming completely outdated, a given model's effectiveness may decay for any number of reasons, including, but not limited to, a change in the amount of assets managed by SCM, the use of similar quantitative models by other market participants or changing market dynamics. There is no guarantee that SCM's models will be effective in identifying profitable trading opportunities at any given time or at all.

### **Quantitative Investment and Trading Strategies**

SCM generally employs proprietary computerized statistical methods using an extensive database of market-related data - including price, volume, volatility, open interest and other market statistics - in an effort to identify price patterns and develop trading strategies in an attempt to exploit these patterns. The profitability of systematic trading depends upon the accurate forecasting of price movements over applicable time horizons. Even if all the assumptions underlying any given trading strategy were met exactly, the systematic approach can only result in a prediction, not provide certainty. There can be no assurance that the future performance of TIF will match the predictions inherent in the trading strategies. Further, most statistical procedures cannot fully match the complexity of the financial and commodity markets and as such, results of their applications are uncertain. No assurance can be given of the accuracy of the forecasts used or made by SCM on behalf of TIF.

### **Reliance on Technology: System Implementation Errors**

TIF's investment program, as implemented by SCM, is fundamentally dependent on technology, including hardware, proprietary and vendor software and telecommunications systems. The data gathering, research, forecasting, portfolio construction, market connectivity, order execution, risk management, operational, back office and accounting systems, among others, used by SCM on

behalf of TIF are all highly automated and computerized. Such automation and computerization is highly dependent upon an extensive amount of proprietary software as well as third-party hardware and software. There is typically an absence of formal design documents or specifications when building proprietary software. The proprietary software code thus typically serves as the final, definitive documentation and specification for how the software should perform. SCM's proprietary software has not been reviewed by third-party information technology consultants or vendors or subjected to other forms of third-party quality assurance.

This proprietary software and third-party hardware and software are known to have economic data or securities price data errors, mathematical or statistical errors, computer system implementation errors or other errors, omissions, imperfections and malfunctions that could produce results inconsistent with the intent of SCM's personnel who designed the proprietary software or with SCM's understanding of how the computer programs should behave (these types of errors are collectively referred to herein as "system implementation errors"). Errors in third-party hardware and software are generally entirely outside of the control of SCM.

These system implementation errors may result in material losses to TIF before being discovered and may not in fact be discovered during SCM's ordinary operations, but may require extreme adverse events before manifesting themselves. SCM seeks to reduce the incidence and impact of system implementation errors through a certain amount of internal testing and real-time monitoring, and the use of independent safeguards in the overall portfolio management system and often, with respect to proprietary software, within the software code itself. Despite such testing, monitoring and independent safeguards, system implementation errors will result in, among other things, the execution of unanticipated trades, the failure to execute anticipated trades, the failure to properly gather and organize available data, the failure to take certain hedging or risk reducing actions or the taking of actions which increase certain risks, all of which may have materially negative effects on TIF and/or its returns.

System implementation errors are often extremely difficult to detect, and in the case of proprietary software, the difficulty of detecting system implementation errors may be exacerbated by the lack of design documents or specifications. Regardless of how difficult their detection appears in retrospect, some system implementation errors will go undetected for long periods of time and some will never be detected. The degradation or impact caused by these system implementation errors can compound over time. Finally, SCM may detect certain system implementation errors that it chooses, in its sole discretion, not to address or fix. While SCM will not perform a materiality analysis on the vast majority of discovered system implementation errors, SCM believes that the testing, monitoring and independent safeguards performed on its software will enable SCM to identify and address those system implementation errors that a prudent person acting in accordance with the applicable standard of care and managing a process-driven, systematic and computerized trading system would identify and address by correcting the system implementation errors or limiting the use of the software, generally, or in a particular application. Shareholders should assume that system implementation errors and their ensuing risks and impact are an inherent feature of implementing the high volume, specialized, complex and highly systematic strategies pursued by SCM. Accordingly, SCM does not expect to disclose discovered system implementation errors to shareholders. Any known losses

associated with system implementation errors are charged to TIF (which also receives any profits associated with system implementation errors).

### **Reliance on Data: Data Errors**

SCM's trading strategies are highly reliant on the gathering, cleaning, culling and analysis of large amounts of data from third-party and other external sources. It is not possible, or practicable, to factor all relevant, available data into trading decisions. SCM will use its discretion to determine what data to gather with respect to any trading strategy and what subset of that data the research models take into account to produce forecasts that may have an impact on ultimate trading decisions. In addition, due to the automated nature of this data gathering and the fact that much of this data comes from third-party sources, it is inevitable that not all desired or relevant data will be available to, or processed by, SCM at all times. In these cases, SCM may and often will continue to generate forecasts and make trading decisions based on the data available to it.

In addition, SCM may determine that certain available data, while potentially useful in generating forecasts and/or making trading decisions, is not cost effective to gather due to either technology costs or third-party vendor costs and, in these cases, SCM will not utilize the subject data. Shareholders should be aware that, for all of the foregoing reasons and more, there is no guarantee that any specific data or type of data will be utilized in generating forecasts or making trading decisions on behalf of TIF, nor is there any guarantee that the data actually utilized in generating forecasts or making trading decisions on behalf of TIF will be the most accurate data available or be free of errors. Shareholders should assume that the foregoing risks and limitations associated with gathering, cleaning, culling and analysis of large amounts of data from third-party and other external sources are an inherent feature of implementing the high volume, specialized, complex and highly systematic strategies pursued by SCM.

A specific form of system implementation error, in the sense described above, applies to SCM's accessing and use of data, especially data obtained from third-party sources (including commercial data vendors). The data reflected in SCM's systems at any given time could be erroneous or less than the best available data for a number of reasons. There may be incidents where the data fails to load properly, or at all or SCM's system fails to retrieve or capture the data, for example, because of changes in the vendor's or SCM's system configurations due to upgrades, enhancements, maintenance or errors. Shareholders should assume that the data errors, like other system implementation errors, and their ensuing risks and impact are an inherent feature of implementing the high volume, specialized, complex and highly systematic strategies pursued by SCM.

### **Risk Evaluation Models**

SCM has developed and maintains proprietary risk evaluation models which seek to estimate the risk and potential for returns based on numerous factors, including, but not limited to, historical volatilities and correlations. These models, among other things, forecast relative returns for risk levels, volatilities of, and correlations among, strategies and investments. These models are also used to evaluate the targeted volatility of TIF's investment portfolio. These models may, for a

number of reasons, fail to accurately predict relative returns for risk levels, volatilities of, and correlations among, strategies and investments, including because of a lack of historical data with respect to certain strategies and investments, erroneous underlying assumptions and estimates for certain data or other defects in inputs and the models, or because future events may not follow historical norms. In and of themselves, these risk evaluation models do not manage or reduce risk and, at most, provide certain assistance to SCM when determining a course of action.

### **Potential Inability to Trade or Report Due to Systems Failure or Impairment**

SCM's strategies are highly dependent on the proper functioning of its internal and external computer systems, data centers and connectivity. Accordingly, failures or impairments to such systems, data centers or connectivity, whether due to third-party failures or issues upon which such systems are dependent or the failure or impairment of SCM's or a service provider's hardware or software, could disrupt trading or make trading impossible until such failure or impairment is adequately remedied. For example, one or more of such systems could fail due to a loss of power at SCM's office, SCM's back up generator and/or at SCM's back up disaster recovery site. Any such failure or impairment, and consequential inability to trade (even for a short time), could, in certain market conditions, cause TIF to experience significant trading losses or to miss opportunities for profitable trading. Any such failures or impairments also could cause a temporary delay in processing shareholder activity or reports to shareholders.

TIF trades on electronic trading and order routing systems, which differ from traditional open outcry trading and manual order routing methods. Transactions using an electronic system are subject to the rules and regulations of the exchanges offering the system or listing the instrument. Characteristics of electronic trading and order routing systems vary widely among the different electronic systems with respect to order matching procedures, opening and closing procedures and prices, trade error policies, and trading limitations or requirements. There are also differences regarding qualifications for access and grounds for termination and limitations on the types of orders that may be entered into the system. Each of these matters may present different risks with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times and security. In the case of internet-based systems, there may be additional risks related to service providers and the receipt and monitoring of electronic communications. Trading through an electronic trading or order routing system is also subject to risks associated with system or component failure or impairment. Any such failure or impairment, and consequential inability to trade or process investor activity (even for a short time), could, in certain market conditions, cause TIF to experience significant trading losses, miss opportunities for profitable trading and/or adversely affect TIF. These risks could be magnified if such failure or impairment resulted from a breakdown of SCM's trading systems (e.g., due to a loss of power or a failure of SCM's software).

### **Model Risk**

Certain of SCM's strategies require the use of quantitative forecasting and valuation models that it has developed over time, as well as forecasting and valuation models developed by third parties and made available to SCM. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without SCM recognizing that fact before substantial losses are

incurred. There can be no assurance that SCM will be successful in continuing to develop and maintain effective quantitative models, and the necessity of continuously updating these models demonstrates that SCM's past successful results may not be representative of TIF's future performance.

### **Failure of Algorithms**

SCM utilizes sophisticated computerized models to automatically determine and execute trade entry and exit conditions and manage risk. Substantial test management and software release management efforts are made to ensure that these algorithms operate correctly. However, it is possible that a defect in algorithm design or implementation or risk management could unexpectedly manifest itself and cause sustained long term or instantaneous catastrophic losses for TIF. Moreover, in the case of certain models it may take a significant period of time – and substantial losses – before it can be determined that the model is malfunctioning.

Waterfront, as a sub-adviser to TIF, maintains certain of the models that SCM uses in connection with its trading and certain employees of Waterfront make trade implementation decisions outside of the models, subject to SCM's overall supervisory authority. Pursuant to a sub-advisory and contractual service agreement between SCM and Waterfront, SCM licensed the use of certain intellectual property it owns to Waterfront in connection with certain of Waterfront's sub-advisory services. SCM owns all improvements that Waterfront may make to any of SCM's intellectual property. While SCM has worked extensively with Waterfront to develop these models and periodically reviews the performance of these models, no assurance can be given that a failure by Waterfront to properly maintain these models will not have a material adverse effect on TIF.

### **Failure of Technology**

SCM utilizes sophisticated direct market access hardware, communications network and software technology in order to efficiently execute trades with minimal latency. Substantial efforts are made to ensure such technology operates correctly, however it is possible that a breakdown of such technology could occur and cause sustained long term or instantaneous catastrophic losses for TIF.

### **Trade Execution Risk**

Many of the trading techniques used by TIF require the rapid and efficient execution of transactions. Inefficient executions can eliminate the small pricing differentials that many of SCM's strategies seek to exploit. SCM attempts to address trade execution risk through the use of proprietary computer systems and programs, but these, in turn, are subject to the error, malfunction and sabotage risks described above (and are treated by SCM as "trade errors"). As previously noted, SCM treats all trade errors (resulting in both losses and gains) as for the account of TIF, subject to SCM's general standard of liability and indemnification.

## **Trade Error Risk**

There are two general types of trade errors that can occur. The first type is trade errors caused by a third party, such as an executing broker or clearing broker. Upon a loss to TIF resulting from a trade error caused by a third party, SCM will attempt to have such third party reimburse TIF. The second type of trade error is trade errors caused by SCM. SCM defines trade errors as errors in executing the trading signals generated by its strategies — including, but not limited to the following examples: buying rather than selling a particular investment asset (and *vice versa*); buying or selling the wrong investment asset or the wrong amount of an investment asset; or buying or selling an investment asset at the wrong price. For such purposes, “trade errors” include errors resulting from trading execution faults embedded in, as well as malfunctions by, SCM’s computer systems and programs (including both software and hardware). Such trade errors are to be distinguished from errors in judgment, due diligence or other factors leading to a trading signal being generated, as well as from unauthorized trading or other improper conduct by SCM personnel.

Due to the nature of trading performed by SCM on behalf of TIF (including high trading volumes, large trades, and frequent directional changes), a certain level of trade errors is expected to happen, and is considered a normal part and risk of business. In fact, the high volume of trades executed by SCM increases the likely number of trade errors. Further, due to SCM’s reliance on computerized signal generation, the possibility of system implementation errors (see above, under “Reliance on Technology: System Implementation Errors”) generating erroneous trading signals is an inherent risk in SCM’s trading strategy. In the absence of statutory, regulatory or self-regulatory requirements, or formal guidance to the contrary, TIF’s account bears any losses and retains any gains for all such trade errors (just as any other trading cost), unless the trade errors result from conduct inconsistent with SCM’s standard of care.

The trade errors which occur in implementing quantitative strategies can be very substantial.

In any case where the costs resulting from trade errors are to be reimbursed to TIF, SCM shall only reimburse direct realized losses from a trade error. Direct losses are limited to commissions and fees associated with the trade and realized losses (if any) incurred in correcting such error. SCM shall not reimburse opportunity costs. Opportunity costs include but are not limited to, any profits that would have been made, or losses avoided, on a position if the position had been initiated or closed out where this did not in fact happen (as for example, in a situation where SCM’s system generates, or fails to generate, a trading signal resulting in the execution or missed execution, as applicable, of a trade).

The OTIP managers also are subject to the risk of trade errors. Due to its allocation of substantial amounts of capital to OTIP, TIF is subject to two “layers” of trade error risk – at both the SCM and the OTIP level. SCM will have no ability to control, and likely will not even know of, trade errors at the OTIP level.

## **Relative Value Strategies**

The success of TIF’s relative value trading is dependent on SCM’s ability to exploit relative mispricings among interrelated instruments. Although relative value positions may be

considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which TIF maintains its positions. Even pure “riskless” arbitrage—which is rare—can result in significant losses if the arbitrage cannot be sustained (due, for example, to margin calls). TIF’s relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force TIF to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies.

With market conditions over the past several years, the profitability of relative value trading has been materially reduced — in part due to the number of market participants seeking to exploit the same mispricings.

### **Event-Driven Investing**

TIF invests in positions whose profitability depends on the result of some significant corporate event, for example, a merger, tender offer, exchange offer or liquidation. Corporate events are affected by numerous factors—including not only market movements but also regulatory intervention, shareholders’ consent and changes in interest rates and economic outlook—that can have a particularly adverse effect on even the most apparently safe risk arbitrage investments. The risk of non-consummation in such transactions is high, and unexpected outcomes can lead to substantial losses.

### **Directional Trading**

A significant number of strategies implemented by SCM are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

### **Hybrid and Other Strategies**

Many of the strategies executed by SCM combine elements of more than one of the foregoing general strategy types. Occasionally, in the course of implementing a particular strategy an opportunistic trade representing a different trading approach will be made. For example, in seeking to identify a relatively mispriced pair of assets, SCM may conclude that an asset is sufficiently over- or underpriced to merit taking an outright directional position.

SCM’s approach combines a range of different trading techniques, both implementing different strategies in different markets and combining different strategies, in the same or related markets.

SCM is continually developing new strategies, adapting and refining existing strategies, and retiring old strategies. There is no material limitation on the strategies that SCM may apply and no assurance as to which types of strategies may be applied at any one time. In addition, while certain OTIP managers may be subject to limitations on the types of strategies that they may



employ, SCM may not have the ability to effectively impose such limitations or enforce any limitations that may be imposed.

### **No Formal Diversification Policies**

Although diversification is an integral part of SCM's overall portfolio risk management process, SCM is not restricted as to the percentage of TIF's assets that may be invested in any particular issuer, industry, instrument, market or strategy. In attempting to maximize TIF's returns, SCM may concentrate the holdings of TIF in those industries, companies, instruments or markets that, in its sole judgment, provide the best profit opportunities consistent with TIF's overall investment objective. Consequently, a loss in any such concentrated position could ultimately result in significant losses to TIF and a proportionately higher reduction in NAV than if its capital had been spread over a wide number of positions. Due to various degrees of transparency in OTIP investments, SCM may not be able to accurately analyze TIF's indirect holdings through OTIP to monitor concentration of investments, which could exacerbate the risk of concentration of investments.

### **Financing Arrangements; Availability of Credit**

The use of leverage is integral to many of TIF's strategies, and TIF depends on the availability of credit in order to finance its portfolio. There can be no assurance that TIF will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing to TIF can apply discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel TIF to liquidate all or part of its portfolio at disadvantageous prices.

### **Leverage**

TIF invests on a highly leveraged basis, both through its borrowings and through the significant degree of leverage typically embedded in the derivative instruments in its portfolio. Losses incurred on TIF's leveraged investments increase in direct proportion to the degree of leverage employed. TIF also incurs interest expense on the borrowings used to leverage its positions.

To the extent the assets of TIF have been leveraged through the borrowing of money, the purchase of securities on margin or otherwise, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by TIF's portfolio fail to cover such costs, the NAV of TIF may decrease faster than if there had been no borrowings. This risk is increased to the extent that an OTIP manager utilizes leverage in its trading program.

## **Lack of Liquidity**

Despite the generally heavy volume of trading in most of the instruments traded by TIF, the market for certain of these instruments may have limited liquidity. Lack of liquidity can make it economically infeasible for TIF to close out open positions. In addition, illiquidity can disrupt the historical price relationships on which SCM's relative value and directional strategies are based, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value.

## **Futures Contracts**

TIF trades exchange-traded futures contracts ("futures"). Futures prices are highly volatile, and are influenced by many external economic, governmental and world events. The low margin requirements normally associated with futures trading permits TIF to use a very high degree of leverage which can result in substantial loss (or gain) from a relatively small price movement.

Additional risks associated with futures trading include the following:

Price Volatility. Futures contracts have a high degree of price variability and are subject to periodic rapid and substantial changes. Consequently, substantial losses could occur.

Futures Markets are Leveraged and Speculative. The markets in which TIF trades are speculative, highly leveraged and involve a high degree of risk. Volatility increases risk, particularly when trading with leverage. Trading on a leveraged basis, as TIF does, involves a substantial risk of sudden, significant losses. Such losses may impair TIF's asset base and may impact SCM's ability to achieve its long-term profit objectives, even if favorable market conditions subsequently develop.

Illiquidity of Markets. Futures positions cannot always be liquidated at the desired price. If there is a relatively small volume of buy and sell orders in a market, it may be difficult to execute a trade at a favorable price. Periods of illiquidity have occurred in the futures markets in the past and can be expected to occur in the future. These periods of illiquidity and the events that trigger them are difficult to predict and there can be no assurance that SCM will be able to do so. Market illiquidity may cause substantial losses for TIF.

Effects of Speculative Position Limits. The CFTC and some commodities exchanges have established limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in many different futures or options contracts traded on U.S. commodities exchanges. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") significantly expands the CFTC's authority to impose position limits with respect to futures contracts, options on futures contracts, swaps that are economically equivalent to futures or options on futures, swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. In addition, the Reform Act requires the SEC to set position limits on security-based swaps. If implemented, any such limits may prevent SCM from acquiring positions for TIF that might otherwise have been desirable or

profitable. Many of the limits set by the CFTC, the SEC, exchanges and other regulators may be subject to adjustment from time to time. There can be no assurance as to when such adjustments will become effective. All accounts controlled by SCM are combined for speculative position limit purposes. SCM could be required to liquidate positions held for TIF, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to TIF.

No Intrinsic Value of Positions. Futures trading is a "zero sum game". For every gain there is an equal and offsetting loss rather than an opportunity to participate over time in general economic growth.

Trading on Non-U.S. Exchanges. In trading futures contracts denominated in currencies other than U.S. dollars, TIF will be subject to the risk of adverse exchange-rate movements between the U.S. dollar and the functional currencies of these contracts unless TIF successfully hedges itself against fluctuations in exchange rates. While TIF does attempt to hedge exchange rate risk, there is no guarantee that this will be successful, potentially subjecting TIF to substantial losses from its trading on foreign exchanges due to adverse exchange rate movements.

Non-U.S. futures transactions involve executing and clearing trades on non-U.S. exchanges. This is the case even if the non-U.S. exchange is "linked" to a U.S. exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. Activities on non-U.S. exchanges, including the execution, delivery and clearing of transactions on such exchanges, is not regulated in the U.S. No U.S. regulator has the power to compel enforcement of the rules of non-U.S. exchanges or the laws of a non-U.S. country. For these reasons, TIF may not be afforded certain of the protections that apply to U.S. transactions, including U.S. alternative dispute resolution procedures or U.S. legal protection. In particular, funds received from customers to margin non-U.S. futures transactions may not be afforded the same protections as funds received to margin futures transactions on U.S. exchanges, even if the same futures commission merchant, broker or dealer are involved.

In addition, some non-U.S. exchanges, in contrast to U.S. exchanges, are "principal markets" in which performance with respect to a contract is the responsibility only of the member with which the trader has entered into a contract and not of the exchange or clearinghouse, if any. In the case of trading on these non-U.S. exchanges, TIF will be subject to counterparty risk, including, but not limited to, counterparty credit risk and the risk that the counterparty will not perform.

Daily Price Fluctuation Limits. Futures positions may become illiquid because certain commodity exchanges limit fluctuations in certain contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under these daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices

have occasionally moved the daily limit for several consecutive days with little or no trading. This could prevent TIF from promptly liquidating unfavorable positions and subject TIF to substantial losses, or prevent it from entering into desired trades. In extraordinary circumstances, the CFTC or other similar non-U.S. regulatory agency could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in the contract.

Physical Delivery of Underlying Asset. From time to time, either advertently or due to System Implementation Error (see above, under *Risks Relating to Systematic Trading*) or human error, TIF may take delivery of certain physical commodities underlying a particular futures contract (for example, lumber, oil, precious metals, etc.). If this were to occur, TIF would incur costs required to warehouse, store and dispose of any such physical commodity. In some cases, this cost may be substantial. In addition, the value of the physical commodity may decrease in value before TIF can dispose of the physical commodity to a third-party buyer.

## **Cryptocurrency Futures Contracts**

TIF trades exchange-traded cryptocurrency futures contracts, which, unlike the futures market for traditional physical commodities, is in the developmental stage and has very limited volume, trading and operational history. As such, cryptocurrency futures contracts and the market for cryptocurrency futures contracts may be riskier, less liquid, more volatile and more vulnerable to economic, market, industry, regulatory and other changes than more established futures contracts and futures markets. The growth and liquidity of the market will depend on, among other things: the supply and demand for cryptocurrency futures; the supply and demand for cryptocurrencies; the continued adoption of cryptocurrencies for commercial uses; the anticipated increase of investments in cryptocurrency-related investment products by retail and institutional investors; speculative interest in cryptocurrencies, cryptocurrency futures, and cryptocurrency-related investment products; regulatory or other restrictions on investors' ability to invest in cryptocurrency futures; and the potential ability to hedge against the market price of cryptocurrencies with cryptocurrency futures (and vice versa). There is no assurance that a liquid market for cryptocurrency futures contracts will develop.

## **Derivatives**

TIF uses derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and may use derivatives for hedging and for other trading purposes.

Many of the derivatives traded by TIF are OTC contracts between TIF and third parties entered into privately, rather than on an exchange. A substantial portion of swap transactions must be executed in regulated markets and submitted for clearing to regulated clearinghouses. However, such cleared OTC transactions present certain risks different from the risks of trading futures contracts on U.S. exchanges. The cleared OTC market is still evolving and largely untested and, accordingly, there are certain risks related to trading cleared OTC instruments — including exposure to counterparty credit risk in the event an OTC transaction submitted for clearing is

rejected by the futures commission merchant or clearinghouse, and the risk that certain cleared OTC transactions may not be easily “ported” to another futures commission merchant if necessary — in addition to the risks of trading futures contracts. The risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of TIF’s assets, include: (1) market risk (adverse movements in the price of a financial asset or commodity); (2) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (3) documentation risk (exposure to losses resulting from inadequate documentation); (4) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (5) systemic risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); and (6) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity, futures commission merchant or clearinghouse). While the Reform Act is intended in part to reduce these risks, its success in this regard will depend on the implementation of many rules and regulations, a process that may take several years.

TIF’s use of derivatives and other instruments (such as equities) for hedging purposes involves certain additional risks, including (1) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (2) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of TIF’s assets segregated to secure its obligations under derivatives contracts. By hedging a particular position, TIF limits the potential gain from an increase in value of such position, but may not achieve a commensurate increase in risk control.

### **Short Sales**

As an integral part of its trading strategies, TIF routinely sells securities “short.” A short sale is effected by selling a security which TIF does not own, or selling a security which TIF owns but which it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, TIF must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. TIF must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless TIF then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by TIF. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by TIF. Furthermore, TIF may prematurely be forced to close out a short position if a counterparty from which TIF borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

During market disruptions over the past several years, securities regulators in a number of countries imposed bans on the short-selling of financial sector (and in some cases, broader market) equities. These limitations were typically imposed on an “emergency” basis, making it

impossible for numerous market participants to continue to implement their strategies. It is possible that securities regulators could re-impose these bans, either on a short-term or permanent basis. Any ongoing regulatory limitations on short-selling which may result from market disruptions could materially adversely affect SCM's ability to implement its strategies for the benefit of TIF.

### **Non-U.S. Securities and Emerging Markets**

TIF trades securities of companies domiciled or operating in one or more non-U.S. countries and may make other investments in entities located outside the U.S., including in countries that are considered to be "emerging markets." Trading in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some non-U.S. governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of non-U.S. tax laws (*e.g.*, the imposition of withholding taxes on dividend or interest payments, capital gains taxes, income taxes and excise taxes) or confiscatory taxation may also affect TIF's investment in non-U.S. securities and its other investments in entities located outside the U.S. TIF may incur higher expenses from investment in non-U.S. securities and, in particular, in emerging markets, than from investment in U.S. securities and in non-emerging markets because of the costs that must be incurred in connection with conversions between various currencies and because non-U.S. brokerage commissions may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and subject to less stringent governmental supervision than in the United States. TIF's investments in non-U.S. countries could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations and in hedging market risk.

### **Private Investments; Illiquid Investments; Estimated Values**

From time to time, TIF may trade illiquid and restricted, as well as thinly-traded, instruments. There is often no trading market for these investments, and TIF might only be able to liquidate these positions, if at all, at disadvantageous prices. TIF may be required to hold such investments despite adverse price movements. If TIF makes a short sale of an illiquid holding, it may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position.

SCM values the illiquid investments in TIF's portfolio at fair value in its good faith discretion. Although there can be no assurance that these valuations will accurately predict the price at which an arm's-length buyer would be willing to purchase the investments, these valuations are part of the calculation of TIF's NAV.

In order to ascertain the NAV of TIF, SCM will need to use an estimated "fair value" (determined by SCM) for its illiquid investments. Any such "fair value" may differ materially from the value ultimately realized upon the liquidation of these investments. Nevertheless, Management Fees and Incentive Fees will be paid, the participation of new Subscriptions in the

profits and losses of TIF determined, and redemption proceeds calculated, based on TIF's "fair value" determinations.

## **OTIP**

TIF invests a substantial portion of its capital in OTIP. All of these investments involve TIF relying on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting SCM's control over, and knowledge of, TIF's overall portfolio. SCM may not be able to withdraw capital from an OTIP investment even in situations where such OTIP investment is deviating from announced strategies or risk control policies or has otherwise been materially adversely affected. Furthermore, an OTIP investment may deviate significantly from its announced strategies and/or risk control policies without SCM's knowledge.

In selecting OTIP investments with which to place and/or invest capital, SCM relies on a variety of both quantitative as well as qualitative factors, as well as the subjective judgment of its personnel. There can be no assurance as to what factors will be considered in selecting OTIP investments, and poor selection could result in material losses for TIF.

There can be no assurances that OTIP (or any particular OTIP manager) will be successful in the future or avoid substantial losses. Many of the risks described herein with respect to TIF's investments apply equally (if not more so) to investments made by OTIP managers, and such risks are often potentially heightened by the use of OTIP managers. For example, OTIP managers trade independently of one another on a discretionary basis and may, therefore, take overlapping positions, resulting in further concentration of TIF's portfolio. Conversely, OTIP managers may be on opposite sides of a particular trading strategy (e.g., one going long on interest rates and another going short on such rates), which can reduce the overall profitability to TIF from such strategies and causes TIF to bear the costs of each such trade. Furthermore, OTIP involves risks which are materially different from those involved in TIF's proprietary trading: for example, the risks of investing in unaffiliated entities over which neither SCM nor TIF has any control, and of investing in entities which are significantly less liquid than TIF. In addition, some OTIP investments are made in the form of managed accounts, which potentially expose TIF to unlimited losses with respect to such accounts. OTIP also creates potential tax risks relating to the possibility of TIF becoming subject to tax on certain types of income in certain jurisdictions. Investors should specifically consider the nature and scope of the risks associated with OTIP before making an investment in TIF.

## **Ownership of Rand Financial**

The operation of a clearing firm entails risks that differ materially from those associated with TIF's direct proprietary trading. Capital invested in Rand Financial by TIF and margin funds held on deposit with Rand Financial by TIF in non-segregated accounts are subject to risk of loss to the extent of any Rand Financial operating losses, including any unrecoverable losses in customer accounts. Rand Financial may also be liable for errors in execution to the extent Rand Financial executes as well as clears customer trades.

Rand Financial, as a clearing member of different U.S. and foreign futures exchanges, is subject to potentially material financial obligations as a result of the default of third parties (including its customers and/or other clearing members) trading on such exchanges.

### **Cybersecurity Breaches**

TIF is subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from “hacking” by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data, as well as misappropriation of confidential information. If a cybersecurity breach occurs, TIF may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose both SCM and TIF to civil liability, as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial redemptions from TIF. In addition, Shareholders could be exposed to additional losses as a result of unauthorized use of their personal information.

### **Item 9 - Disciplinary Information**

SCM and its employees are not currently and have not been the subject of any disciplinary actions. This includes any civil, criminal or administrative proceedings.

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

As noted in Item 4, SCM has been registered with the U.S. Commodity Futures Trading Commission as a “commodity trading advisor” since June 2003 and as a “commodity pool operator” since January 2009.

TIF owns Rand Financial, a futures commission merchant. Rand Financial is a clearing member of the following exchanges: the Board of Trade of the City of Chicago, Inc.; Chicago Mercantile Exchange Inc.; Commodity Exchange, Inc.; ICE Futures Europe; ICE Futures U.S.; the Minneapolis Grain Exchange, Inc.; and the New York Mercantile Exchange, Inc..

TIF’s ownership of Rand Financial may create an incentive for SCM to prefer Rand over other third party futures commission merchants, even where such third party’s commissions and fees are lower than Rand’s. In addition, SCM would have an incentive to ensure that Rand is profitable, since Rand’s profitability benefits TIF.

As noted in Item 4 and Item 8, Waterfront acts as a sub-adviser to TIF. In this capacity and subject to SCM’s overall supervisory authority, Waterfront provides portfolio strategy development, investment analysis services (including, without limitation, the development, evaluation, testing and procurement of valuation and forecast models and trading strategies), software development consulting services (including, without limitation, the design, coding and implementation of custom computer software applications specified by SCM) and various other ancillary services.



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

SCM maintains a Code of Ethics and Personal Trading Policy (the “Code”). The Code is available to any shareholder or prospective shareholder of the Funds, upon request and at no cost.

SCM’s reputation for conducting its business in the highest ethical and professional manner is essential to its success. SCM’s officers, partners, directors (and persons of similar status or performing similar functions), employees and other persons providing investment advice on its behalf and subject to its control (each a “supervised person” and, collectively, “supervised persons”) are responsible for continuing to uphold these high ethical and professional standards. The Code establishes the standard of business conduct that all supervised persons must follow. This includes, but is not limited to, a duty of loyalty to SCM’s clients, which requires that supervised persons act in the best interests of the Funds and always place the Funds’ interests first and foremost. Supervised persons must avoid actions or activities that allow (or appear to allow) them or their family members to profit or benefit from their relationships with SCM and the Funds, or that bring into question their independence or judgment. Supervised persons must always observe standards of business conduct and act in accordance with all applicable federal securities laws and regulations and other applicable laws and regulations. Supervised persons must report any violations of the Code promptly to SCM’s Chief Compliance Officer (“CCO”).

The Code also addresses personal trading by SCM’s supervised persons who have access to non-public information regarding any clients’ purchase or sale of securities or certain portfolio holdings or who is involved in making securities recommendations to clients or who has access to such recommendations that are non-public (each an “access person” and, collectively, “access persons”). The Code requires access persons to report certain of their personal securities holdings and transactions. Access persons are required to submit annual reports of brokerage accounts containing certain holdings. In addition, access persons are required to submit quarterly transaction reports that detail certain of their respective securities transactions.

Subject to the Code, as described above, SCM’s supervised persons are permitted to engage in personal securities transactions (including transactions in securities currently held in TIF’s account or that may be appropriate for investment in such account) subject to preclearance obligations for participation in initial public offerings and private placements (other than investments in TIF or HFL). In addition, SCM and its partners, principals, employees, and other affiliates may engage in investment activities for their own accounts or for family members. These activities may involve the purchase and sale of securities that are similar to or the same as, and effected at the same or different times as, but in different concentrations or prices than, those purchased or sold for TIF.

All supervised persons must conduct themselves in accordance with the Code and seek to avoid even the appearance of improper behavior. Each new supervised person is required to read the Code and acknowledge his or her understanding of the Code. In addition, all supervised persons must sign the acknowledgement on an annual basis.

If an access person recommends, buys or sells positions for TIF or has access to trading information and also trades securities for a personal account, there may be a conflict of interest if the access person's personal trading influences their decisions regarding TIF's trades or if the access person misuses trading information to effect personal trades. The Code contains policies and procedures intended to ensure that personal securities trading by access persons is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an access person's position of trust and responsibility. An access person's duty of loyalty to the Funds prohibits misappropriating trading information and/or strategies developed for use in managing TIF's capital in the access person's personal trading. The Code is designed to ensure that TIF is not disadvantaged in any respect by the transactions executed by any access person and access persons in no respect misappropriate any benefit properly belonging to TIF.

### **Item 12 - Brokerage Practices**

In negotiating commission rates and selecting brokers to execute securities trades on TIF's behalf, SCM seeks best execution and takes into account numerous factors, including, but not limited to, the financial stability and reputation of the broker and the quality of the special execution capabilities, clearance, settlement, net pricing, latency, online pricing, block trading and block positioning capabilities, on-line access to computerized data regarding clients' accounts, performance measurement data, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short sales, custody, record keeping and other services provided by such broker.

It is SCM's policy not to enter into "soft dollar" arrangements (*i.e.*, arrangements under which SCM agrees to pay more than the lowest available commission for products or services provided by a broker-dealer). SCM retains the option to utilize soft dollar arrangements in the future. If SCM chooses to change its practice regarding soft dollars, it is permitted to select brokers in recognition of the value of various services or products, beyond transaction execution, that they provide to SCM and TIF. If SCM elects to use soft dollars, it shall follow its internal policies and procedures, which are consistent with Section 28(e) of the Securities Exchange Act of 1934 and any applicable regulatory guidance.

SCM, however, uses full-service broker-dealers that may provide, from time to time (without being requested to do so), research or other products or services to most or all of their customers. SCM may take advantage of the research or other products or services provided rather than producing or paying for them from another provider. In these situations, SCM receives a benefit because it does not have to pay for the research or other products or services. Even in the absence of soft dollar arrangements, SCM may have an incentive to utilize broker-dealers based on benefits that it receives from the broker-dealers, rather than the interests of TIF in receiving the most favorable execution. However, since the research or other products or services provided are not material in nature and quantity and may be provided, from time to time, by several broker-dealers, SCM's receipt of such research or other products or services does not have a material effect on its selection of broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures and any research or other products or services received are used for the benefit of TIF.

SCM's OTIP program allocates TIF's assets to outside managers. These outside managers may utilize soft dollars. SCM does not receive a benefit and does not exercise control over the outside managers' utilization of soft dollar arrangements, if any.

SCM has occasionally utilized capital introduction services provided by broker-dealers with whom SCM may effect transactions. Capital introduction services are utilized for the purpose of: (1) introducing prospective TIF or HFL investors to SCM; and (2) introducing OTIP to potential outside managers. These capital introduction services are not material or considered by SCM when determining whether to utilize a particular broker-dealer. Commissions paid by TIF are not increased as a result of any capital introduction services provided by broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures and any capital introduction services are used for the benefit of TIF.

Broker-dealers utilized by SCM may, from time to time, provide and maintain telecommunication connections between SCM and the broker-dealers and/or various exchanges. The costs of these services are not material and are provided by the broker-dealers to ensure the maintenance of the telecommunication connections and the measurement of the latency associated with trading conducted by SCM are more efficient. The provision of these services does not result in the increase of any commissions paid by TIF. SCM's receipt of such services does not have a material effect on its selection of broker-dealers. Furthermore, SCM addresses any potential conflicts of interest through its best execution policies and procedures and any telecommunication services are used for the benefit of TIF.

Futures brokerage commissions are not subject to the same requirement of best price and execution as are securities brokerage commissions. A significant portion of futures trades for TIF are executed through Rand Financial. Executing trades through Rand Financial provides TIF with benefits such as confidentiality and visibility into the creditworthiness of its counterparty. While in general the brokerage fees and commissions charged by Rand Financial to TIF are competitive with other third party futures commission merchants, it is possible that TIF may pay higher fees and commissions to Rand than it would to other third party futures commission merchants. However, SCM does not see this as a material consideration because, as the owner of Rand Financial, TIF benefits from Rand Financial's profitability.

See Item 8 for information regarding trade errors. SCM has only one client, TIF, for which SCM engages in the purchase and sale of securities and therefore does not aggregate the purchase and sale of securities. HFL, SCM's only other client, invests all of its assets in TIF and, accordingly, SCM does not engage in the purchase and sale of any other securities for HFL.

### **Item 13 - Review of Accounts**

SCM's CEO (or his delegate) periodically reviews the trading activity conducted by SCM on behalf of TIF in conjunction with SCM's Director of Fund Accounting, Director of Trade Implementation, Chief Operating Officer and members of the portfolio management personnel. These reviews consist of an ongoing analysis of (1) various trading data, (2) internally generated risk reports and (3) an evaluation of such other information SCM deems appropriate.

SCM provides TIF and HFL shareholders with a number of written reports including a weekly performance estimate and an account statement once each month showing the shareholder's beginning and ending account balance and performance for the previous month. In addition, shareholders are also provided with a monthly performance and risk management summary for TIF, which includes information about TIF's performance, performance attribution, counterparty concentration, forecasted and realized volatility and portfolio liquidity. A third party, CITCO Fund Services (Bermuda) Ltd., provides monthly asset and price verification services on behalf of the Funds and their shareholders. CITCO's findings are summarized in a report which is provided to the Funds' shareholders. SCM also provides annual audited financial statements for the Funds' shareholders within 180 days of the end of TIF's respective fiscal year. SCM also provides tax reports for shareholders subject to U.S. taxation.

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

SCM does not provide or receive any economic benefits related to client referrals nor does SCM receive any economic benefits for the provision of advisory services to TIF and HFL from anyone who is not a client.

#### **Item 15 - Custody**

Although SCM does not maintain physical custody of TIF's assets, SCM's supervised persons may access the assets and therefore SCM has custody of those assets under Rule 206(4)-2 (often referred to as the "Custody Rule") of the Advisers Act. Also, SCM holds some of TIF's assets in an account with its affiliate, Rand Financial, a qualified custodian. SCM is exempt from many of the provisions of Rule 206(4)-2 because TIF is audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed to each shareholder in TIF within 180 days of the end of TIF's fiscal year. Additionally, in compliance with the Custody Rule, SCM receives an annual internal control report from Rand Financial.

#### **Item 16 - Investment Discretion**

SCM provides discretionary investment advisory services to TIF and has the authority to determine the type and amount of any financial instruments to be bought and sold on behalf of TIF. This includes the discretion to choose the broker or dealer to be used in any transactions and the commission rates to be paid. Therefore, SCM makes decisions to buy or sell investment instruments on behalf of TIF without the consent of the shareholders of TIF. This authority is granted to SCM through the execution of a subscription agreement by TIF's shareholders.

SCM is responsible, under the supervision of HFL's Board of Directors, for the determination that HFL invests all of its assets into TIF. Accordingly, SCM provides discretionary investment advisory services to HFL, and HFL shareholders authorize HFL's investment into TIF through the execution of a subscription agreement.

### **Item 17 - Voting Client Securities**

***Proxy Voting Policy.*** SCM maintains Proxy Voting Policies and Procedures (the “Proxy Policy”) to ensure that it exercises appropriate voting authority with respect to securities held by TIF. The Proxy Policy and information on SCM’s proxy voting record is available upon request from SCM’s CCO. With respect to securities traded by SCM using its proprietary computerized trading strategies, TIF's Board of Directors has determined that SCM shall abstain from voting proxies. Due to the investment strategies pursued by SCM, TIF's Board of Directors believes that the outcome of any particular proxy vote would have minimal (if any) impact on SCM's investment decision-making process.

SCM will monitor corporate events and/or resolutions relating to private funds in TIF's OTIP portfolio. SCM will determine whether to vote proxies and will cast votes as it deems appropriate, in the best interest of TIF.

With regard to OTIP managed accounts, the unaffiliated investment manager with trading authority over the respective account has been granted full discretionary authority over voting proxies (either as part of the investment management agreement or in a separate instruction). In this regard, while TIF, or a subsidiary of TIF, has legal ownership of the security, there is no authority to vote or direct the voting of proxies relating to securities held in the account. This is to ensure that the outside manager has the ability to vote in accordance with the objectives of the particular strategy related to a managed account.

***Class Action Participation.*** SCM has determined that the Funds will not participate as plaintiffs or other participants in class action litigation in which they may be eligible to participate. The potential benefit of participating in a class action would, in most cases, be outweighed by the significant risk that proprietary trading strategies could be revealed during the litigation and discovery process related to any such class actions. The revelation of such strategies could have a negative impact on the Funds. Moreover, the potential cost in time and resources related to class actions could exceed any potential benefit for the Funds.

Notwithstanding the above, where SCM determines that the Funds have suffered a direct and proximate loss due to third party activities that are or may be subjected to class action litigation, SCM may direct the Funds to participate in such class action litigation.

OTIP may have certain accounts that participate in class actions upon the request of the unaffiliated portfolio manager directing that account. These requests will be reviewed by SCM on a case by case basis to determine whether such class action could provide a potential benefit to the Funds.

### **Item 18 - Financial Information**

SCM is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to HFL or TIF, and SCM has not been the subject of a bankruptcy petition at any time during the past 10 years.