

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

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**MONTE CAPITAL GROUP LLC**

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**July, 2019**

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**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF MONTE CAPITAL GROUP LLC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (646) 455-3445. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR BY ANY STATE SECURITIES AUTHORITY.**

**ADDITIONAL INFORMATION ABOUT MONTE CAPITAL GROUP LLC ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).**

**REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.**

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## **MATERIAL CHANGES**

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Monte Capital Group LLC (“Monte Capital”) is filing an updated annual firm brochure with the U.S. Securities and Exchange Commission (“SEC”), to reflect material changes.

Monte Capital is an adviser to the Monte Capital Group Master Fund LLC.

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## ADVISORY BUSINESS

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Monte Capital was founded in 2012. Charles Remes and Aron Schnell each indirectly own an equal interest in Monte Capital.

Monte Capital offers discretionary investment advisory services to both collective investment vehicles, including private investment funds (“Monte Capital Funds”), separate investment accounts maintained by its advisory clients (“Client Accounts”), mutual funds, and variable insurance trusts. Monte Capital’s investment strategy for its private fund and for its Client Accounts focuses on active trading of listed and unlisted, registered and unregistered securities of various U.S. and international issuers, including, but not limited to, equity and equity-related securities (e.g., common stock, preferred stock, stock warrants and rights, convertible securities and indices related to any of the foregoing), exchange traded funds (“ETFs”), swap contracts and forward contracts, futures contracts and options on futures contracts, as well as listed and over-the-counter options and other derivative instruments on all of the above instruments, notes, commercial paper, bonds, debentures, money market instruments, certificates of deposit, currencies, debt instruments and other fixed income securities.

Monte Capital is an adviser to the Monte Capital Group Master Fund LLC.

Monte Capital will tailor its advisory services to each such client’s or fund’s investment objectives, restrictions and guidelines as communicated to Monte Capital by each such client or pursuant to the constituent documents of such fund, as applicable; however, clients generally are not permitted to impose restrictions on investing in specific financial instruments or types of financial instruments for their Client Accounts, except as Monte Capital may otherwise agree in a particular case.

In addition to offering discretionary investment advisory services with respect to the Monte Capital Funds and the Client Accounts, Monte Capital may also offer non-discretionary advisory services to certain clients. Monte Capital will customize the nature and scope of such non-discretionary advisory services based on a particular client’s investment and financial issues, risks and goals, and these services may include consulting on portfolio construction, investment opportunities, hedging of existing assets and/or such other advisory services as Monte Capital and such client may agree.

As of July, 2019, Monte Capital managed no client assets on a discretionary basis. The firm is pursuing new clients.

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## FEES AND COMPENSATION

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Monte Capital charges both asset-based “management fees” and performance-based “performance fees” to certain of its clients and investors, which vary among the Monte Capital Funds, Client Accounts, mutual funds and variable insurance trusts as follows:

**Monte Capital Fund Management Fees.** With respect to its management of the Monte Capital Funds, Monte Capital generally expects to receive a quarterly asset-based management fee equal to .375% (1.5% per annum) of the net asset value of each such Monte Capital Fund. These management fees are expected to be payable quarterly in advance generally within five (5) business days after the beginning of each calendar quarter. Monte Capital may, in its sole discretion, waive or reduce the management fee with respect to any investor in the Monte Capital Funds, including its affiliates or employees. Notwithstanding the foregoing, these management fees may be negotiated by Monte Capital with respect to investors in the Monte Capital Funds based on a variety of factors, including, but not limited to, the size, composition and complexity of a Monte Capital Fund's portfolio, length and nature of Monte Capital's relationship with the investor or other factors deemed relevant by Monte Capital.

**Client Account Management Fees.** With respect to its management of a Client Account, Monte Capital generally receives a quarterly asset-based management fee equal to .50% (2% per annum) of the net asset value of each such Client Account. The Client Accounts' management fees are payable quarterly in advance generally within five (5) business days after the beginning of each calendar quarter. Monte Capital may, in its sole discretion, waive or reduce the management fee with respect to any Client Account. Notwithstanding the foregoing, these management fees may be negotiated by Monte Capital with respect to certain Client Accounts based on a variety of factors, including, but not limited to, the size, composition and complexity of the Client Account, length and nature of Monte Capital's relationship with the client, special services agreed upon with the client or other factors deemed relevant by Monte Capital.

Management fees for Client Accounts are billed to the applicable clients at the beginning of each quarter.

**Non-Discretionary Advisory Fees.** With respect to those clients that engage Monte Capital to provide customized non-discretionary advisory services, Monte Capital's fees for such services will be specifically negotiated with the client based on the client's particular investment and financial situation, risks and goals. Monte Capital generally charges for such services at an hourly rate of up to \$500 per hour, or as otherwise agreed upon by Monte Capital and such clients.

**Other Fees and Expenses.** Monte Capital's clients will incur other expenses in connection with Monte Capital's advisory services. Such expenses may include transaction fees, brokerage commissions, custody fees; government charges, taxes and duties; transfer fees and registration fees; withholding taxes payable and required to be withheld by issuers or their agents; and other related costs and expenses that will be incurred by a client with respect to the transactions for its Client Account. Clients will also bear the investment management or other fees charged by any mutual funds or ETFs in which Monte Capital may invest on behalf of a Client Account.

Investors in the Monte Capital Funds will also bear additional charges and expenses in connection with such investment. Each Monte Capital Fund incurs legal and organizational expenses in connection with its formation and initial offering, which generally will be borne by the applicable fund (and, therefore, indirectly by its investors). In addition, the Monte Capital Funds may also bear ongoing expenses, which may include, without limitation, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information and regulatory authorities and expenses for specialized administrative services); printing and duplication expenses; investment related travel expenses, investment research expenses, market data, newswire and data processing expenses; software and connectivity charges; bank charges and borrowing costs; exchange, board of trade or other trading or execution facility membership or participation expenses; offering expenses; filing fees; directors' and officers' liability insurance; investment and operating expenses; and other expenses necessary to operate such fund. Additional details regarding the fees and

expenses borne by investors in the Monte Capital Funds will be set forth in the prospectuses and/or other constituent documents for such funds, as applicable.

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## PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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Monte Capital also receives performance-based compensation from Client Accounts:

**Client Account Performance Fee.** Monte Capital will also charge performance-based compensation with respect to the Client Accounts that it manages. Unless otherwise negotiated with a particular client, this performance-based compensation generally ranges between 10% and 20% of the net increase in value (if any) of the assets in the Client Account (including both realized and unrealized gains and losses) with respect to the applicable measurement period, after payment of the management fees described above and recovery of losses in the Client Account in prior measurement periods.

This performance-based compensation is calculated and payable as of the last day of each calendar quarter, upon termination of the advisory relationship with Monte Capital or upon withdrawal by a client of all or part of its investment in the Client Account.

**Conflicts of Interest Related to Performance-Based Compensation.** A significant percentage of the appreciation (if any) which would otherwise be allocated to the investors in the Monte Capital Funds and clients in the Client Accounts is paid to Monte Capital. This performance-based compensation is based upon unrealized, as well as realized, gains, and such unrealized gains may never be recognized by the investor or client. This gives rise to a potential conflict of interest, as Monte Capital may have an incentive to favor the accounts of clients for which it or its affiliates receive performance-based compensation over accounts for which they receive only an asset-based fee by, for example, seeking to allocate more profitable investment opportunities to the accounts for which Monte Capital receives performance-based compensation. However, Monte Capital has implemented aggregation and allocation procedures to allocate the securities bought or sold between the applicable Monte Capital Funds and Client Accounts on a fair and equitable basis over time. See “*Brokerage Practices*” below.

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## TYPES OF CLIENTS

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To date, Monte Capital has only provided investment advisory services to private investment funds; however, Monte Capital has determined to offer investment advisory services to individuals, including high-net worth individuals, trusts and estates and corporations and other business entities. Client Accounts are generally subject to a minimum initial investment of \$10,000,000, and the Monte Capital Funds are generally subject to a minimum initial investment of \$1,000,000, in each case, unless such minimum is waived by Monte Capital in its sole discretion.

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

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The Fund aims to maximize total return via a combination of interest income and capital appreciation.

Through the Fund's investment in the Master Fund, the Fund will access US fixed income mutual funds ("Underlying Funds") managed by a premier manager, Frost Investment Advisors ("Frost"). The Master fund will invest the majority of the assets in Frost Total Return Bond Institutional (FIJEX) as a core strategy, with additional investments in Frost Credit Institutional Fund (FCFIX and Frost Low Duration Bond Fund (FILDIX). The Investment Manager reserves the right to allocate to funds managed by other strategy managers besides Frost if it deems such allocation to be beneficial to investors.

The Underlying Funds' investments will include investment grade securities including US treasuries, agency debt, corporate debt, asset and mortgage backed securities, and taxable municipal bonds. Minimum rating in the lowest investment grade category (i.e., rated BBB by Standard & Poor's or Baa by Moody's Investors Service, or higher, or unrated and considered by the strategy manager to the Underlying Fund to be comparable in quality) at the time of purchase and bank instruments, repurchase agreements, and other U.S. government securities. In addition to capital appreciation and income, the strategy has a secondary goal of minimizing any *potential* twelve month negative returns. Therefore, the strategy chooses to stay well diversified and limit interest rate risk. The Underlying Funds weightings in these fixed income asset classes is dynamic as the respective managers deem appropriate and use macroeconomic, credit, market analysis and proprietary metrics to select portfolio securities. From time to time, the Fund maintains a portion of its assets in cash. The Fund may increase its cash holdings in response to market conditions or in the event attractive investment opportunities are not available. Cash may be invested in interest bearing instruments such as money market funds, CDs etc..

The Investment Manager employs the following four primary strategies to varying degrees depending on its views of economic growth prospects, interest rate predictions and relative value assessments: 1) Interest rate positioning based on duration and yield curve positioning, 2) Asset category allocations, 3) Credit sector allocations relating to security ratings by the national ratings and 4) Individual security selection. The "total return" sought by the strategy consists of income earned on the Fund's investments, plus capital appreciation, if any, which generally arises from decreases in interest rates or improving credit fundamentals for a particular sector or security.

The portfolio duration is actively managed by purchasing securities such that the average weighted duration of the portfolio will typically range within plus or minus three years of the portfolio benchmark's duration even though over short periods may deviate by larger amounts. The strategy uses Bloomberg Barclays US Aggregate Bond Index as its benchmark.

Other features of the strategy include: investing in floating-rate products ("floaters") where the coupon is indexed to LIBOR, CPI, or some other economic indicator: No mandate to maintain any particular sector weighting, therefore sector weighting can be adjusted based upon proprietary factors or macro outlook. The strategy invests across the entire US bond market, as opposed to investing only in those sectors represented in the Barclay's Aggregate Bond Index (benchmark). There is no currency risk as the strategy only participates in USD denominated instruments. Investments are made in all cash bonds and no leverage or derivatives are utilized.

### **Customized Programs and Non-Discretionary Advisory Services**

In addition to the programs described above, Monte Capital may provide customized advisory services in respect of selected clients, to the extent agreed upon between Monte Capital and such client. This advice may entail use of the Theta programs, as described above, or may involve other customized advisory services based on a particular client's investment and financial situation, risks and goals, which may

include consulting on portfolio construction, investment opportunities, hedging of existing assets and/or such other advisory services as Monte Capital and the client may agree.

Monte Capital's instrument selection and portfolio management is limited by the prospectus of the Monte Total Return US Bond Fund Ltd. Those prospectuses will be provided to any non-US citizen or non-US resident investor upon request.

### **Certain Risk Factors**

The identification of attractive investment opportunities is difficult and involves a significant degree of uncertainty. Potential clients should consider the following risks before engaging Monte Capital to manage their accounts.

*Equity Securities.* Monte Capital may trade in equity securities on behalf of the Client Accounts and the Monte Capital Funds. Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. The value of equity securities may fluctuate in response to specific situations for each company, industry market conditions and general economic environments.

*Trading in Options.* Monte Capital is expected to engage in a significant amount of options trading on behalf of the Client Accounts and the Monte Capital Funds. An option is a right, purchased for a certain price, to buy or sell an underlying instrument or product during or at the end of a certain period of time (the "expiration") for a fixed price (the "strike price"). The risks in trading options are different from the risks in trading the underlying instruments or products, and trading in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. For example, if Monte Capital buys an option for a Client Account, the client will be required to pay a "premium" representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, the client may lose the entire amount of the premium. Conversely, if Monte Capital sells an option on behalf of a Client Account, the client will be credited with the premium, but will have to deposit margin due to its contingent liability to deliver or accept the underlying instrument or product in the event that the option is exercised. Sellers of certain options are subject to unlimited risk of loss, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then-market value. The ability to trade in or exercise options may be restricted in the event that trading in the underlying instrument or product becomes restricted.

*Trading in Currencies.* Monte Capital may trade on behalf of the Client Accounts and the Monte Capital Funds currencies and financial instruments in interbank and forward contract markets which Monte Capital believes to be well-established and of recognized standing. Nonetheless, the Client Accounts and the Monte Capital Funds may be exposed in the interbank market to risks associated with any government or market action that might suspend or restrict trading or otherwise render illiquid, in whole or in part, the Client Accounts or the Monte Capital Funds' positions. Although certain currency trades may be effected through exchange-traded financial instruments, the foreign currency market remains predominantly an over-the-counter market, and is therefore subject to the risks typical to over-the-counter trading.



*Security Futures Contracts.* Security futures contracts include both futures contracts on single stocks and futures contracts on narrow-based securities indices. They are treated as both futures and securities and, therefore, may be subject to the joint jurisdiction of commodities and securities governmental agencies (to the extent applicable). Security futures contracts are subject to the same risks as other securities, as well as to the greater volatility and risks of futures trading. Since they are relatively new products, security futures contracts have relatively low liquidity and limited trading history. Monte Capital will extensively use securities futures contracts in its management of the Monte Chesapeake Macro Strategies Fund and the Mariner Managed Futures Strategy Portfolio. However, the use of securities futures contracts is limited by the mutual fund and variable insurance trust prospectuses.

*Fixed-Income Investments.* Monte Capital is expected to invest in fixed-income financial instruments on behalf of the Client Accounts and the Monte Capital Funds. The value of fixed-income financial instruments will change as the general levels of volatility and interest rates fluctuate. When interest rates decline, the value of fixed-income financial instruments can be expected to rise. Conversely, when interest rates rise, the value of such financial instruments can be expected to decline. Investments in lower rated or unrated fixed-income financial instruments, while generally providing greater opportunity for gain and income than investments in higher rated financial instruments, usually entail greater risk (including the possibility of default or bankruptcy of the issuers of such financial instruments).

*Trading in ETFs.* Monte Capital may invest in ETFs on behalf of the Client Accounts and the Monte Capital Funds, both long and short. ETFs are funds that track a particular basket or index of securities traded on a public exchange such as the American Stock Exchange. ETF investments are subject to the risks arising from the portfolio of underlying stocks, including market and issuer risks, but may also present certain unique risks. It is possible for the value of ETFs to fall or to rise more slowly than the stock market as a whole even when stock prices in general are rising. In addition, the fees and expenses charged by such ETFs result in an additional level of fees and greater expense to clients than would be associated with direct investment.

*Repurchase Agreements and Reverse Repurchase Agreements.* Monte Capital may enter into repurchase and reverse repurchase agreements on behalf of the Client Accounts or Monte Capital Funds. Repurchase agreements involve the sale of a financial instrument by Monte Capital on behalf of a Client Account or Monte Capital Fund and its agreement to repurchase the financial instrument at a specified time and price (thereby financing the Client Account's or Monte Capital Fund's acquisition of such financial instrument). If the party to whom such financial instrument is sold should default, as a result of bankruptcy or otherwise, the Client Account or Monte Capital Fund may not be able to recover the financial instruments sold, which could result in a loss to the Client Account or Monte Capital Fund if the value of such financial instruments has increased over their repurchase price. Similarly, the entering into reverse repurchase agreements involves certain risks. A reverse repurchase agreement involves the purchase of a financial instrument by Monte Capital on behalf of the Client Accounts or Monte Capital Funds from a broker that agrees to repurchase the financial instrument at the Client Account's or Monte Capital Fund's cost plus interest within a specified time. Under a reverse repurchase agreement, a Client Account or Monte Capital Fund continues to receive any principal and interest payments on the underlying financial instrument during the term of the agreement. If the party agreeing to repurchase should default, as a result of bankruptcy or otherwise, Monte Capital may seek to sell the securities held by the Client Account or Monte Capital Fund, which action could involve procedural costs or delays in addition to a loss on the financial instruments if their value should fall below their repurchase price. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, Monte Capital's ability to dispose of the underlying financial instruments on behalf of the Client Account or Monte Capital Fund may be severely restricted. Monte Capital may seek to use repurchase agreements and reverse repurchase agreements in its management of the Monte Chesapeake Macro Strategies Fund and the Mariner Managed Futures Strategy Portfolio.

*Turnover.* Monte Capital expects to invest the assets in the Client Accounts and the Monte Capital Funds on the basis of short-term market considerations. The portfolio turnover rate of investments for clients and investors may be significant, and therefore may incur substantial brokerage commissions, mark-ups and fees that will reduce the client's and investor's investment returns.

*Credit Risk of Issuer.* Monte Capital may invest in financial instruments that have built-in convertibility (from debt to equity) features on behalf of the Client Accounts and the Monte Capital Funds. The risks associated with such financial instruments include credit risk. Credit risk is the possibility that an issuer will be unable to make interest payments and repay principal when due. Changes in an issuer's financial strength or in a financial instrument's credit rating may affect a financial instrument's value. Financial instruments rated below investment grade, sometimes called "junk bonds," generally have more credit risk than higher rated financial instruments.

*Trading on Exchanges in Non-U.S. Jurisdictions.* Monte Capital may engage in trading on behalf of the Client Accounts and the Monte Capital Funds on exchanges outside the United States. Trading on such exchanges is not regulated by any United States governmental agency and may involve certain risks not applicable to trading on United States exchanges. For example, some foreign exchanges are "principals markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a trade and not of an exchange or clearing organization. Moreover, such trading may be subject to whatever regulatory provisions are applicable to transactions effected outside the United States, whether on foreign exchanges or otherwise. Trading on foreign exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect Monte Capital's trading activities. The risks of investing in non-U.S. securities and other financial instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets and higher brokerage commissions and custody fees. Furthermore, foreign trading is also subject to the risk of changes in the exchange rate between United States dollars and the currencies in which financial instruments traded on such exchanges are settled. Some foreign futures exchanges require margin for open positions to be converted to the "home currency" of the contract. Additionally, some brokerage firms have imposed this requirement for all foreign futures markets traded, whether or not it is required by a particular exchange. Whenever margin is held in a foreign currency, the Client Accounts and the Monte Capital Funds are exposed to potential gains or losses if exchange rates fluctuate. Although the U.S. Commodity Futures Trading Commission ("CFTC") is prohibited by statute from promulgating rules that govern in any respect any rule, contract term or action of any foreign commodity exchange, the CFTC has full authority to regulate the sale of foreign futures contracts within the United States and has adopted regulations that may restrict Monte Capital and the contracts and markets on which Monte Capital trades on behalf of the Client Accounts and the Monte Capital Funds, which may have an impact on the Client Accounts' and the Monte Capital Funds' future performance results. Monte Capital through its management of the Monte Chesapeake Macro Strategies Fund, and the Mariner Managed Futures Strategy Portfolio, occasionally make investments in foreign futures contract through its off-shore Subsidiary. Monte Capital recognizes its obligations to comply with all foreign laws and regulations. The investment in foreign futures contracts may have an impact on the performance of the Monte Chesapeake Macro Strategies Fund, and the Mariner Managed Futures Strategy Portfolio.

*Investments in Emerging Markets.* To the extent that Monte Capital invests its clients' and investors' assets in emerging market financial instruments, the Client Accounts and the Monte Capital Funds will be subject to certain additional risks that are not usually associated with similar investments in the U.S. and other industrialized democracies including fluctuation in currency exchange rates, the imposition of exchange control regulations, the possibility of expropriation decrees, more limited information about issuers and their operations, different accounting standards, and smaller, less liquid markets. Investment in emerging market countries carries a high degree of risk.

*Currency and Exchange Rate Risks.* Monte Capital is expected to invest on behalf of the Client Accounts and the Monte Capital Funds in financial instruments denominated in currencies other than the U.S. Dollar or in financial instruments which are determined with references to currencies other than the U.S. Dollar. Monte Capital, however, will generally value the assets held by the Client Accounts and the Monte Capital Funds in U.S. Dollars, and generally does not intend to hedge the Client Accounts' and the Monte Capital Funds' exposure to non-U.S. currencies. The value of the assets held by the Client Accounts and the Monte Capital Funds will fluctuate with U.S. Dollar exchange rates as well as with price changes of its investments in the various local markets and currencies. Thus, an increase in the value of the U.S. Dollar compared to the other currencies in which Monte Capital may make investments on behalf of the Client Accounts and the Monte Capital Funds will reduce the effect of increases and magnify the U.S. Dollar-equivalent of the effect of decreases in the prices of the financial instruments in their local markets. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the non-U.S. Dollar financial instruments. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, gains and losses realized on the sale of financial instruments and net investment income and gains, if any, of the Client Accounts and the Monte Capital Funds.

*Short Sales.* A short sale involves the sale of a financial instrument that a Client Account or a Monte Capital Fund does not own in the expectation of purchasing the same financial instrument (or a financial instrument) exchangeable therefore at a later date at a lower price. To make delivery to the buyer, the Client Account or the Monte Capital Fund often must borrow the financial instrument, and the Client Account of the Monte Capital Fund is obligated to return the financial instrument to the lender, which is accomplished by a later purchase of the financial instrument by the Client Account or the Monte Capital Fund. When the Client Account or the Monte Capital Fund makes a short sale of a financial instrument on a U.S. exchange, it must leave the proceeds thereof with a broker and it must also deposit with a broker an amount of cash or U.S. Government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the financial instrument and a corresponding loss to the Client Account or the Monte Capital Fund. The extent to which Monte Capital engages in short sales on behalf of the Client Accounts and the Monte Capital Funds depends upon its investment strategy and perception of market direction. Monte Capital does not necessarily have a policy limiting the amount of capital it may deposit to collateralize the Client Accounts' or the Monte Capital Funds' obligations to replace borrowed financial instruments sold short. Monte Capital follows the prospectus requirements when setting a policy limiting the amount of capital it may deposit to collateralize the mutual fund or VIT's obligations to replace a borrowed financial instruments sold short.

*Default and Counterparty Risk.* Some of the markets in which Monte Capital may effect transactions on behalf of the Client Account and the Monte Capital Funds are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Client Accounts and the Monte Capital Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client Accounts and the Monte Capital Funds to suffer a loss. In addition, in the case of a default, the Client Accounts and the Monte Capital Funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Monte Capital has concentrated its transactions on behalf of the Client Accounts and the Monte Capital Funds with a single or small group of counterparties. Monte Capital may not have an internal credit function which evaluates the creditworthiness of its counterparties. The ability of Monte Capital to

transact business on behalf of the Client Accounts and the Monte Capital Funds with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Client Accounts and the Monte Capital Funds.

*Effectiveness of Risk Reduction Techniques.* Monte Capital may employ various risk reduction strategies designed to minimize the risk of its trading positions taken on behalf of the Client Accounts, Monte Capital Funds, mutual funds and variable insurance trusts. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement and when possible will not always be effective in limiting losses. If Monte Capital Adviser analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with Monte Capital's investments on behalf of its clients, such risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These risk reduction techniques may also increase the volatility of client investments and/or result in a loss if the counterparty to the transaction does not perform as promised.

*Leverage.* The low margin and collateral deposits required to trade many exchange-traded derivatives may permit an extremely high degree of leverage. In addition, Monte Capital may utilize broker-provided financing in its trading on behalf of the Client Accounts and the Monte Capital Funds. The degree of leverage that Monte Capital may utilize may not be limited to any predetermined level, but will be subject to applicable legal, regulatory or broker imposed leverage limitations, to the extent applicable. As a result of trading with a high degree of leverage, a relatively small price movement in a financial instrument's price may result in immediate and substantial losses to clients and investors, and could result in the mandatory liquidation of certain positions if margin requirements are not satisfied. If a client's or investor's assets are in a leveraged position, any losses would be more pronounced than if leverage were not used and, under particularly adverse circumstances, could exceed the client's or investor's capital under Monte Capital's management.

*Reliance on Quantitative Analysis.* Monte Capital's investment strategies rely upon quantitative models and systems. Such models and systems may entail the use of sophisticated statistical calculations and complex computer systems, and there is no assurance that Monte Capital will be successful in carrying out such calculations correctly or that the use of these quantitative models and systems will not expose clients and investors to the risk of significant losses. In addition, the analytical techniques used by Monte Capital cannot provide any assurance that clients and investors will not be exposed to the risk of significant trading losses if the underlying patterns that form the basis for the quantitative models and systems employed by Monte Capital change in ways not anticipated by Monte Capital. The effectiveness of quantitative models and systems may diminish over time, and attempts to apply existing quantitative models and systems to new or different markets, strategies or financial products may prove ineffective.

To the extent that information regarding Monte Capital's positions or trades becomes or is required to be made publicly available, there is a material risk that other market participants may seek to reverse engineer Monte Capital's quantitative investment strategies from such public information. The use of Monte Capital's investment strategies by other persons, whether as a result of reverse engineering, "front-running" or other actions, may have a material adverse effect on the performance of Monte Capital's strategies.

*Reliance on Fundamental Analysis.* Monte Capital may base its trading decisions, in whole or in part, on fundamental analysis. Fundamental trading systems consider factors, such as inflation, trade balances, inventories and interest rates, which do not have an impact on traditional technical trading systems, in an attempt to identify investment opportunities. To the extent that such factors provide mixed or conflicting signals, a fundamental trading system may not be able to detect and/or accurately predict price trends. There can be no guarantee that the fundamental trading systems utilized by Monte Capital will enable it to

accurately value the financial instruments in which Monte Capital invests on behalf of client investments or that any anticipated price trends will materialize with respect to such investments.

*Technical Trading Systems.* Monte Capital is expected to rely on technical trading systems. For any technical trading system to be profitable there must be price moves or “trends” – either upward or downward – in some financial instrument that the system can track and those trends must be significant enough to dictate entry or exit decisions. Trendless markets have occurred in the past and are likely to recur. In a trendless or erratic market, a technical trading system may fail to identify a trend on which action should be taken or may overreact to minor price movements and thus establish a position contrary to overall price trends, which may result in losses. In addition, a technical trading system also may underperform other trading methods when fundamental factors dominate price moves within a given market. Technical systems also may be profitable for a period of time, after which the system fails to detect correctly any future price movements. Accordingly, technical traders often modify or replace their systems on a periodic basis. Any factor (such as increased governmental control of, or participation in, the markets traded) that lessens the prospect of sustained price moves in the future may reduce the likelihood that Monte Capital’s technical systems will be profitable.

*Increased Use in the Markets of Technical Trend-Following Trading Methods.* In recent years, there has been a substantial increase in financial instrument trading systems, methods, and strategies employing trend-following timing signals, based either exclusively on technical analysis or on a combination of fundamental and technical analysis. There also has been an increase in the overall volume of trading and liquidity of the financial instrument markets. While the effect of any increase in the proportion of accounts and/or funds traded pursuant to trend-following trading approaches in recent years cannot be determined, any such increase could alter trading patterns or affect execution of trades to the detriment of client investments.

*Wholly-Owned Subsidiary Risk.* The Subsidiary will not be registered under the 1940 Act and, unless otherwise noted, will not be subject to all of the investor protections of the 1940 Act. The Adviser has, on behalf of the Subsidiary, filed with the National Futures Association a notice claiming exemption from the CFTC’s reporting and disclosure requirements in accordance with Part 4 of the CFTC Regulations. The CFTC regulations provide relief relating to CFTC disclosure and reporting requirements for commodity pools, such as the Subsidiary, that are operated by a CPO that is the same as, controls, is controlled by or is under common control with the CPO of an offered pool (such as the Monte Chesapeake Macro Strategies Fund). Changes in the laws or regulations of the United States and/or the Cayman Islands, under which the mutual fund and the Subsidiary, respectively, are organized, could result in the inability of the mutual fund and/or Subsidiary to operate as described in the Prospectus and could negatively affect the mutual fund and its shareholders. The cost of investing in the mutual fund will be higher because you indirectly bear the expenses of the Subsidiary.

**The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with Monte Capital’s investment programs or an investment in any fund or account advised by Monte Capital. Prospective clients and investors must consult their own advisers before deciding whether to make such an investment.**

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## DISCIPLINARY INFORMATION

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Monte Capital is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or investor's evaluation of Monte Capital or the integrity of Monte Capital's management.

There are no violations within the past 10 years to report.

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

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Certain inherent conflicts of interest may arise from the fact that Monte Capital may carry on substantial investment activities for multiple clients simultaneously, including Client Accounts, the Monte Capital Funds and the mutual fund and variable insurance trust. Monte Capital may give advice and recommend investments to, or engage in investment transactions for, certain of its clients which advice or investments may differ from advice given to, or investments made for, other Monte Capital clients, even though their investment objectives may be the same or similar.

As described above, Monte Capital may act as an investment adviser to multiple clients. The investment methods and strategies that Monte Capital uses to manage a particular client's account may be used by Monte Capital when managing another client's account. Monte Capital and/or its affiliates may have a conflict of interest in rendering advice to a particular client because the financial benefit from managing another client's account may be greater, which could provide an incentive to favor such other account. In addition, Monte Capital and its principals and affiliates may invest and trade for their own accounts, including in securities or derivatives which are the same as or different or opposite from those traded or held by its clients. As a result, Monte Capital and its principals and affiliates may from time to time have proprietary investments in securities or derivatives in which its clients may take a position, may trade and invest simultaneously with clients and may take investment positions that are different or opposite from the positions taken by clients. Accordingly, conflicts of interest may arise between Monte Capital's clients and Monte Capital or its principals or affiliates with respect to matters such as the allocation of investment opportunities, purchases and sales of securities or derivatives in connection with particular trading situations and allocation of personnel, resources and expenses. The records of trading by Monte Capital and its principals and affiliates will not be made available to clients, except to the extent required by law. However, trading by principals and personnel of Monte Capital will be subject to Monte Capital's Code of Ethics and personal trading policy, as described below in "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," which seeks to mitigate the conflicts described above. Also, Monte Capital believes that these conflicts are mitigated by its methodology for allocating investments among client accounts, as described below in "*Brokerage Practices*."

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

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Monte Capital has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Monte Capital must acknowledge the terms of the Code of Ethics annually, or as amended. Monte Capital's clients or prospective clients may request a copy of Monte Capital's Code of Ethics by contacting the Chief Compliance Officer Charles Remes at (646) 455-3445.

As a matter of policy, Monte Capital does not cause any of its clients to effect transactions in which such clients purchases securities or derivatives from, or sells securities or derivatives to, Monte Capital or its principals or affiliates (i.e., principal trades) or in which one of Monte Capital's affiliates acts as broker for a Client Account, a Monte Capital private fund, a Monte Capital managed mutual fund or a Monte Capital managed variable insurance trust and the other party to the transaction (i.e., agency cross transactions). Monte Capital may effect transactions in which a client purchases securities or derivatives from, or sells securities or derivatives to, another clients account (i.e., cross trades) where it determines that such trades are in the interest of both clients and otherwise comply with the firm's Code of Ethics.

Monte Capital anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause clients to purchase or sell securities in which Monte Capital, its affiliates and/or clients, directly or indirectly, have a position or interest. Monte Capital's employees and persons associated with Monte Capital are required to follow Monte Capital's Code of Ethics, which includes certain qualifications on the ability of Monte Capital's personnel to trade instruments held by clients. Subject to satisfying this policy and applicable laws, officers, directors and employees of Monte Capital and its affiliates may trade for their own accounts in securities and derivatives which are recommended to and/or purchased for clients, as described above in "*Other Financial Industry Activities and Affiliations*." The Code of Ethics is designed to assure that the personal transactions, activities and interests of the employees of Monte Capital will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while at the same time allowing employees to invest for their own accounts. The Code of Ethics requires pre-clearance of certain transactions, and requires that the interests of Client Accounts be placed ahead of those of Monte Capital employees in their personal trading. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same instruments as clients, there is a possibility that employees might benefit from market activity by a client in an instrument held by an employee. Employee trading is regularly monitored under the Code of Ethics in an effort to prevent conflicts of interest between Monte Capital and its clients.

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## BROKERAGE PRACTICES

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**Client Accounts.** With respect to client investments, unless otherwise agreed between Monte Capital and a particular client, Monte Capital will require the client to direct brokerage to one or more brokers, which will clear and carry the client's account as clearing broker(s) and whose commissions payable by such client shall be determined by negotiation between Monte Capital and such brokers. In negotiating brokerage arrangements with respect to such client investments, Monte Capital will seek the "best execution" for its clients. In selecting brokers, Monte Capital may not adhere to an rigid formulae, but will consider, among other things, transaction costs, the sizes and types of transactions executed, access to liquidity, execution efficiency, capital utilization, the value of brokerage and services provided, clearance and settlement services provided, financial responsibility/counterparty credit statistics, responsiveness to inquiries or issues, confidentiality, knowledge of specific securities and industry groups, the availability

of securities to borrow for short sales, block trading capabilities and access to markets and the ability to limit market impact.

Pursuant to agreement between Monte Capital and a particular client, such client may direct Monte Capital to effect transactions for such client's Client Account through specific brokers selected by such client. In such event, Monte Capital generally will not negotiate commission rates with those brokers selected by the client. Furthermore, if a client directs brokerage, such Client Account will not be able to participate in reduced commission rates which may be available to aggregated or "bunched" orders, and orders for such client generally will be placed after orders for clients that leave the selection of brokers to the discretion of Monte Capital.

**Monte Capital Funds.** Monte Capital will select the executing brokers (and, in the case of any private fund, clearing brokers) to be utilized by the Monte Capital Funds, and will have discretion to select different brokers to be used for each transaction and to negotiate the rates and commissions its clients will pay. Monte Capital may not adhere to any rigid formulae in making the selection of brokers, but will weigh a combination of criteria consistent with its obligation to seek "best execution" for its clients. In selecting brokers to execute transactions, Monte Capital need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Brokers will be selected generally on the basis of best execution, which may be determined by considering, in addition to price and commission rates, other factors including special execution capabilities, clearance, settlement, other transaction charges, block trading and block positioning capabilities, financial strength and stability, efficiency of execution and error resolution, the availability of stock to borrow for short trades, custody, recordkeeping and similar services ("Products and Services").

**Research and Other Soft Dollar Benefits.** In exchange for the direction of commission dollars to certain brokers, credits (or soft dollars) may be generated which may be used by Monte Capital to pay for the Products and Services provided by, or paid by, such brokers ("Credits"). Although the commission rates charged by such brokers may not be represented as reflecting such additional Products and Services, the commission rates charged by such brokers may be higher or lower than the commission rates charged by other brokers, and the Client Accounts and Monte Capital Funds may be deemed to be paying for such other Products and Services provided by the broker which are included in the commission rate (i.e., "paying up"). In particular, Monte Capital expects to enter into "soft dollar" arrangements with one or more brokers in connection with securities transactions undertaken on behalf of its clients and investors, pursuant to which such brokers will provide Monte Capital with certain research and execution analytics and portfolio management and report generation tools. Monte Capital intends for its use of such Products and Services to qualify for the "safe harbor" set out in Section 28(e) under the Securities Exchange Act of 1934, as amended.

Monte Capital may derive substantial direct or indirect benefit from these Products and Services, particularly to the extent it uses Credits to pay for research or other expenses which it would otherwise be required to pay. To the extent that Monte Capital receives the benefits of Products and Services, a potential conflict of interest exists between Monte Capital's duty to manage or trade for the Client Accounts and the Monte Capital Funds in the best interests of their respective clients and investors and in an effort to obtain best execution, and Monte Capital's desire to receive the potential benefits of these Products and Services. In addition, Monte Capital may use Products and Services in servicing some or all of its clients and investors and the clients and investors of its affiliates, and some Products and Services may not necessarily be used by a particular Client Account or Monte Capital Fund even though its commission dollars may have been used to acquire the Products and Services. A Client Account and/or Monte Capital Fund, therefore, may not, in a particular instance, be the direct or indirect beneficiary of the Products or Services provided.



In the last fiscal year, Monte Capital has obtained proprietary research and analytical tools from a broker to the Monte Capital Funds, which are made available to all customers of such broker generally. In connection with its utilization of these Products and Services, Monte Capital has made a good faith determination that the commissions payable to the broker providing such Products and Services are reasonable in relation to the value of the Products and Services provided by such brokers.

**Client Referrals from Brokers.** Monte Capital may utilize brokers who refer prospective clients or investors to Monte Capital. Because such referrals, if any, are likely to benefit Monte Capital, but will not necessarily provide any significant benefit to Monte Capital's clients, Monte Capital will have a conflict of interest when allocating brokerage business to a broker who has referred clients or investors to Monte Capital. To prevent brokerage commissions from being used to pay investor referral fees, Monte Capital will not allocate brokerage business to a referring broker unless they determine in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to Monte Capital's clients.

**Aggregation and Allocation of Client Orders/Investments.** In some cases, Monte Capital may seek to buy or sell the same security or other investment on behalf of multiple clients at the same time. In those cases, Monte Capital intends to combine purchase and sale orders on behalf of such clients and other accounts, and all such participants in the transaction will receive the average price (net of transaction costs) in the transactions. Although aggregation may operate to the disadvantage of particular clients in a given transaction, such aggregation is intended to promote fairness over the longer term among all accounts or entities involved in the transaction, including client and proprietary accounts.

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## REVIEW OF ACCOUNTS

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**Account Reviews.** Monte Capital's portfolio managers and their investment teams and trading desks review the positions held by Monte Capital's clients. In addition, Monte Capital also performs monthly reviews of positions held by the Monte Capital Funds, its managed accounts, the Monte Chesapeake Macro Strategies Fund and the Mariner Managed Futures Strategy Portfolio or more frequently upon the occurrence of an event which would have a significant impact on its clients' performance. The foregoing reviews are undertaken by Monte Capital's compliance and risk management department.

**Client Reporting.** Clients with Client Accounts advised by Monte Capital receive all brokerage confirmations and monthly statements with respect to their accounts generally within ten (10) business days of the end of each month. Monte Capital furnishes financial statements annually to all investors in the Monte Capital Funds. Such investors are also provided with periodic unaudited reports including information regarding such fund's performance and the current balance of the investor's investment in such fund. Investors in the Monte Capital managed mutual funds and variable insurance trusts will receive statements from the broker through whom they invested. Monte Capital does not provide statements to investors in mutual fund or variable insurance trust directly.

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## CLIENT REFERRALS AND OTHER COMPENSATION

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Monte Capital entered into a relationship with a third party on January 15, 2013, whereby Monte Capital has agreed to pay such third parties fees for referring clients to Monte Capital. Monte Capital terminated this agreement as of December 31, 2013. Per the agreement, Monte Capital would pay any fees earned by

the third party subject to the terms described in the agreement until the agreement expired. This agreement and all of its terms have now expired.

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## **CUSTODY**

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Monte Capital currently does not have custody of the funds and securities of the Client Accounts. Monte Capital currently does not have custody of any funds or securities in the mutual funds or variable insurance trusts it manages.

Clients may receive periodic statements from the custodian that holds and maintains the client's investment assets. Monte Capital urges each client to carefully review such statements and compare such official custodial records to any account statements that Monte Capital may provide such client. Monte Capital's statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities or other instruments.

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## **INVESTMENT DISCRETION**

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Unless otherwise agreed to by Monte Capital and a particular client, Monte Capital generally exercises discretionary authority over the accounts of its clients. Monte Capital usually receives discretionary authority from the client at the outset of an advisory relationship, by means of an investment advisory or similar agreement (or, in the case of certain Monte Capital Funds, through the constituent documents of the funds themselves), which grants a power of attorney in favor of Monte Capital to select the identity and amount of any investments to be bought or sold for its clients. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

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## **VOTING CLIENT SECURITIES**

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At the express direction of a client, Monte Capital will vote proxies for securities held in such client's Client Account. Unless such client has provided Monte Capital specific voting instructions, Monte Capital will generally vote such proxies consistent with the recommendations of the issuer's management, except in cases where Monte Capital believes that such action would be inconsistent with the best interest of its client. In the event that Monte Capital has an interest in the vote for which a client has granted Monte Capital proxy voting authority, Monte Capital will vote such proxies in line with management or liquidate the client's positions in such company, in order to avoid a conflict of interest.

Monte Capital holds the authority to vote proxies on behalf of the Monte Capital Funds, and has adopted proxy voting policies and procedures designed to ensure that such proxies are voted in the best interests of the Monte Capital Funds. Pursuant to Monte Capital's proxy voting procedures, in the event that Monte Capital receives proxies sent to the Monte Capital Funds, the portfolio manager for the applicable Monte Capital Fund will be responsible for casting the proxy, consistent with Monte Capital's general voting guidelines and other applicable firm policies. However, Monte Capital may also engage an independent third party to cast any proxy votes on behalf of the Monte Capital Funds in the event that the Chief Compliance Officer identifies a material conflict of interest in casting such votes.

Monte Capital holds the authority to vote proxies on behalf of the mutual funds and variable insurance trusts it manages, and has adopted proxy voting policies and procedures designed to ensure that such proxies are voted in the best interests of those clients. Pursuant to Monte Capital's proxy voting procedures, in the event that Monte Capital receives proxies, the portfolio manager for the applicable client will be responsible for casting the proxy, consistent with Monte Capital's general voting guidelines and with the mutual fund and variable insurance trust's applicable policies. However, Monte Capital may also engage an independent third party to cast any proxy votes on behalf of those clients in the event that the Chief Compliance Officer identifies a material conflict of interest in casting such votes.

Clients and investors that have granted Monte Capital proxy voting authority may obtain a copy of Monte Capital's complete proxy voting policies and procedures and information about how Monte Capital voted any proxies on behalf of clients or investors by contacting Charles Remes at (646) 455-3445.

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## **FINANCIAL INFORMATION**

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Monte Capital is required to provide you with certain financial information or disclosures about its financial condition. Monte Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

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