

## **DAEMON INVESTMENT AND ASSET MANAGEMENT, LLC**

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### **FORM ADV, PART 2A**

April 24, 2019

This firm brochure (the “Brochure”) provides information about the qualifications and business practices of Daemon Investment and Asset Management, LLC (“Daemon IAM” or “we”). If you have any questions regarding the contents of this Brochure, please contact our Chief Compliance Officer, Vitor Rhein Schirato at (786) 577-3074 or via e-mail at [vitor.schirato@daemoninvestments.com](mailto:vitor.schirato@daemoninvestments.com), or the deputy compliance officer [Giuliana Soldi](mailto:giuliana.soldi@daemoninvestments.com) at (786) 577-3076 or via e-mail at [giuliana.soldi@daemoninvestments.com](mailto:giuliana.soldi@daemoninvestments.com). The information in this Brochure has not been approved or verified by the Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Daemon IAM is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Daemon IAM is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration as an investment adviser does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise, nor does it imply a certain level of skill or training.

## **ITEM 2 | MATERIAL CHANGES**

This Brochure replaces the last version of the Brochure dated March 19, 2018. This Brochure reflects Daemon IAM's updated assets under management.

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## **ITEM 4 | ADVISORY BUSINESS**

Daemon Investment and Asset Management, LLC (“Daemon IAM”) is an investment adviser that provides investment advice to one client, Daemon Investment Fund (the “Client”), which is incorporated in the Cayman Islands.

Daemon IAM seeks to offer its Client an investment management strategy that focuses primarily on instruments relating to Brazilian export finance and Brazilian public debt. In particular, as described in more detail in “Methods of Analysis, Investment Strategies and Risk of Loss” in Item 8 below, Daemon IAM’s main business is to provide investment advice to its Client in connection with Programa de Financiamento às Exportações, also known as the Export Financing Program (“PROEX”), a Brazilian government program designed to stimulate investment in the export of Brazilian products. The PROEX program, managed by Banco do Brasil, seeks to equalize interest rates available to importers of Brazilian capital goods such that they may receive financing with similar terms to those provided by Export Credit Agencies of other exporting countries. This interest rate equalization is carried out by the Brazilian Government by delivering certain Brazilian government bonds denominated in US Dollars to lenders that finance Brazilian exports.

Daemon IAM is a Florida Limited Liability Company based in Miami, Florida that was organized in May 2016 for the purpose of providing investment advice to the Client. The controlling members of Daemon IAM are Sergio Rhein Schirato and Edson Queiroz. Each of Messrs. Schirato and Queiroz owns 46.5% of the membership interests in Daemon IAM.

In providing investment advice, Daemon IAM uses the investment experience and expertise of its principals, particularly its founding partners: Edson Queiroz, Sergio Rhein Schirato, and Vitor Rhein Schirato. Vitor Rhein Schirato also serves as the Chief Compliance Officer of Daemon IAM.

Daemon IAM tailors specific investment management advice to its Client based on its investment objectives, characteristics and any Client-imposed investment restrictions, as established by Daemon IAM and the Client and generally set out in a separate investment management agreement, limited liability company agreement, offering memorandum and/or other governing documents (collectively, the “Governing Documents”). Additional information regarding Daemon IAM’s investment process and how it addresses the needs of the Client is contained throughout this Brochure. As of this filing, Daemon IAM has approximately US\$ 5.02 billion in assets under management.

Daemon IAM does not participate in any wrap fee programs.

## **ITEM 5 | FEES AND COMPENSATION**

The Client pays Daemon IAM a quarterly management fee of US\$500,000, payable in advance on the first business day at the beginning of each quarter.

In addition, Daemon IAM is entitled to a performance fee of 5.00% of the Client’s total income as stated in the Client’s financial statements, or US\$3 million yearly, whichever is greater. The performance fee is charged quarterly in arrears, on the first day of the following

quarter. Daemon IAM may choose to waive a portion of or all of the quarterly performance fee at its sole discretion.

The performance fee is based on the Client's "total income." Total income is calculated as follows:

- (i) the discounted value of the Brazilian National Treasury bonds held, brought to present value using market rates; *minus*
- (ii) the amount due to counterparties for securities purchased, also brought to present value at market rates; *plus* or *minus*
- (iii) changes in fair value of items (i) and (ii); *plus*
- (iv) interest income on promissory notes; *minus*
- (v) interest expense on deposits payable.

The management fee is paid in advance of services provided. In the event the Client terminates its relationship with Daemon IAM, fees will be pro-rated for the number of days the account was under management and Daemon IAM will issue a refund to the Client. Pursuant to the investment management agreement, 30 days notification is required before effective date of termination. No penalty will be charged for termination. The Client pays additional fees to an administrator under an administration agreement.

In addition to the fees above, the Client generally must bear all of its administration and operating expenses, which may include:

- i. postage, telephone and facsimile expenses;
- ii. organizational expenses;
- iii. the costs of initial and ongoing filing requirements relating to the Client;
- iv. legal, auditing and accounting fees and expenses (including costs of reports to the Client, financial statements, and tax returns);
- v. director's fees;
- vi. travel expenses related to the administration and affairs of the Client;
- vii. bank and custodial fees related to the Client's accounts;
- viii. transaction and currency costs related to the management of the Client's assets;
- ix. all extraordinary expenses (such as litigation);
- x. interest on and fees and expenses arising out of all permitted borrowings made on behalf of the Client;

- xi. any taxes, fees or other governmental charges levied against the Client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Client's account; and
- xii. other administrative expenses associated with the Client that are not part of the administration fee.

The Client may incur brokerage and other transaction costs, as discussed more fully under "Brokerage Practices" in Item 12 below.

Neither Daemon IAM nor any of Daemon IAM's supervised persons accept commissions or markups or other compensation for the sale of investment products that Daemon IAM recommends to its Clients in addition to its advisory fees.

## **ITEM 6 | PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Daemon IAM charges the Client a performance-based fee of 5.00% of the Client's total income as defined in its financial statements, or US\$3 million yearly, whichever is greater. As of the date of this document, the Client and each investor in the Client are each deemed to be a "qualified client" under Rule 205-3 of the Advisers Act. Performance-based fees are only charged if the Client and the investors in the Client, at the time of entering into a Governing Document with Daemon IAM, are each deemed to be a "qualified client" under Rule 205-3 of the Advisers Act.

Daemon IAM currently expects to only have one client. Consequently, conflicts of interest that arise from side-by-side management of clients with differing fee structures are not currently applicable to Daemon IAM. If, in the future, Daemon IAM provides investment advice to more than one client, such conflicts of interest may arise. For additional discussion of potential conflicts of interest, please see Item 10 | Other Financial Industry Activities and Affiliations.

## **ITEM 7 | TYPES OF CLIENTS**

Daemon IAM currently provides investment advice to only one Client, a Cayman private fund. In the future, Daemon IAM may provide discretionary portfolio management services relating to Brazilian export financing by serving as an investment adviser or sub-adviser to offshore accounts, private funds, and private accounts for certain institutional clients.

## **ITEM 8 | METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **(a) Investment Strategy**

Daemon IAM's strategy focuses primarily on Brazilian export finance, and in particular, the Brazilian PROEX program. Accordingly, Daemon IAM may provide investment advice to the Client on originating: (i) securities or credit instruments representing credit transactions related to the financing of export transactions of Brazilian companies; (ii) debt securities or financing transactions in which the Client may act as a direct lender to Brazilian export

companies, or importers of Brazilian goods; and (iii) Brazilian sovereign debt securities. Daemon IAM may also advise the Client on acquiring securities or credit instruments from other lenders participating in the PROEX program. Given the investment objectives and restrictions of the Client, Daemon IAM primarily seeks to pursue the three investment strategies described below.

(i) *Credit instruments related to the financing of export transactions of Brazilian producers of capital goods*

The Client's primary objective is to structure and finance exports of Brazilian capital goods. The Client typically enters into a Note Purchase agreement with a debtor involved in an export transaction, under which the Client assumes the commitment of financing a series of these transactions for a period of time or up to a certain US Dollar amount. In connection with this agreement, the Client requires the debtor to post cash collateral in an amount not less than the total outstanding exposure of the Client, at any time. By financing exports of capital goods, the Client is eligible to request and receive an interest rate equalization under the Brazilian Government's PROEX program, in the form of Brazilian government bonds.

Daemon IAM is responsible for identifying companies that:

- A. are eligible to participate in the PROEX program;
- B. are willing to comply with international trading regulations;
- C. have export transactions meeting the criteria set by the Brazilian government in the PROEX program; and
- D. have a volume of exports that supports the costs involved in the transaction.

Daemon IAM relies on the expertise of its principals to identify target companies and evaluates a number of factors in conducting research and diligence.

(ii) *Rights of equalization and NTN-I Bonds*

As a result of the credit transactions described above, the Client is eligible to receive certain US Dollar-indexed Brazilian sovereign debt from the Brazilian National Treasury, known as NTN-I bonds. In addition to the bonds received in connection to exports directly financed by the Client, the Client may also purchase NTN-I bonds or rights to receive NTN-I bonds linked to transactions financed by third parties.

(iii) *Other Brazilian Sovereign Bonds*

The Client may hold other Brazilian bonds in connection with the sale of NTN-I bonds. In those cases, Daemon IAM seeks to minimize the Client's market exposures by selling the bonds as soon as practicable, or completely hedging the currency and rates exposures of these instruments.

(b) Material Risks of Key Investment Strategies

Investing in securities involves a risk of loss that clients should be prepared to bear. The list below includes some material risks relating to Daemon IAM's key investment strategies. This does not purport to be a complete list of risks applicable to Daemon IAM's investment strategy. The risks below should be read in conjunction with the Client's offering documentation.

(i) *Changes in Applicable Law and the PROEX Program*

Daemon IAM's investment strategy is currently focused on the Brazilian PROEX program. Consequently, any changes to applicable law or the operation of the PROEX Program could materially affect Daemon IAM's investment strategy.

(ii) *Currency Risk*

Daemon IAM may provide investment advice relating to securities denominated in various currencies. Currency fluctuations may materially affect the net asset value of the Client's investments.

(iii) *Credit Risk*

Brazilian government bonds carry the risk of default. In addition, bonds carry the risk of being downgraded by the rating agencies which could have implications on price. A change in economic conditions in Brazil could adversely affect these factors, which could affect Daemon IAM's ability to use the NTN-I Bonds to equalize interest rates in lending to Brazilian export companies.

(iv) *PROEX Operational Risk*

The PROEX program requires Daemon IAM to comply with a number of operational procedures, from booking promissory notes to executing foreign exchange trades in a particular manner. Errors or omissions in performing these tasks may lead to undesirable market exposure, both of which can affect the net asset value of the Client's investments.

**ITEM 9 | DISCIPLINARY INFORMATION**

Daemon IAM and its management have no reportable disciplinary events to disclose.

**ITEM 10 | OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither Daemon IAM nor any of its management personnel are registered, or have an application pending to register, as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of such.



Daemon IAM is affiliated with a non-U.S. investment adviser, Daemon Investimentos Ltda. (“Daemon Investimentos”), a Brazilian entity that is not regulated in the United States. Edson Queiroz and Sergio Schirato control both Daemon IAM and Daemon Investimentos. Daemon Investimentos provides investment advice to a Brazilian investment fund (the “Brazilian Fund”) with similar investment strategies to the Client. All of the investors in the Client are also investors in Daemon Investimentos and the Brazilian Fund. While investment opportunities may arise that are appropriate for both the Client and the Brazilian Fund, the fact that all of the investors in the Client are also investors in the Brazilian Fund operates to mitigate any potential conflict of interest.

Daemon IAM also has in place an allocation policy designed to further mitigate any potential conflict of interest that may arise when the Client and the Brazilian Fund are each eligible to invest in an investment opportunity. The allocation policy is designed to take a number of factors into account with no factor being determinative. Those factors include:

- (i) Available capital: The fund with the greatest mid-term excess of capital at the time an investment opportunity becomes available may be given preference in the allocation of the opportunity.
- (ii) Transaction costs: Transaction costs may vary depending on how the transactions are originated because, for example, the Client and the Brazilian Fund are located in different geographic regions. The entity for which transaction costs of an investment are lower may be given preference in the allocation of the opportunity.

Any transactions involving the Client and the Brazilian Fund will comply with the requirements of the Advisers Act and Daemon IAM’s compliance policies and procedures.

In addition, our Chief Compliance Officer, Vitor Rhein Schirato is a Partner at the law firm of Rhein Schirato, Meireles & Caiado Advogados based in Sao Paulo, Brazil. Mr. Schirato and his firm may not separately represent firms that participate in the PROEX program in any event in order to avoid any conflict of interest.

## **ITEM 11 | CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING**

Daemon IAM has adopted a written Code of Ethics in accordance with Rule 204A-1 under the Advisers Act to seek to ensure that Daemon IAM fulfills its role as a fiduciary to its Client. The Code of Ethics is designed to address and avoid potential conflicts of interest and is applicable to all employees, including those located at Daemon Investimentos, an affiliated investment adviser in Brazil. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised employees of Daemon IAM must acknowledge the terms of the Code of Ethics upon commencement of employment with Daemon IAM and annually thereafter. Daemon IAM provides a copy of its Code of Ethics to the Client or any prospective client upon request.

Daemon IAM's Client may engage in principal and cross trades subject to the limitations of the Advisers Act, if applicable. A principal trade occurs when an investment adviser (or an owner, employee or affiliate of such investment adviser), acting for its own account or the account of an affiliate, buys a security from, or sells a security to, a client. A cross trade is a pre-arranged transaction between two or more different funds or accounts, each of which is managed by the same adviser and where no broker-dealer or brokerage commission is involved). For example, a principal trade would likely occur when the Client buys a security from, or sells a security to the Brazilian Fund. Daemon IAM has compliance policies and procedures in place that apply to such principal trades and cross trades and that are designed to address the conflicts of interests arising from such transactions.

## **ITEM 12 | BROKERAGE PRACTICES**

The Client's investments in Brazilian export-related credit instruments take the form of privately negotiated transactions that do not involve the use of a broker.

Daemon IAM may use broker-dealers when executing purchases and sales of Brazilian government bonds. In particular, Daemon IAM may use a broker as an intermediary in government-sponsored national auctions of Brazilian government securities. Daemon IAM effects transactions with those brokers and dealers which it believes provide the most favorable prices and which it believes are capable of providing efficient execution. The determinative factor is whether the transaction represents the best qualitative execution for the Client account and not necessarily whether the lowest possible commission cost and price is obtained. Daemon IAM considers the full range of quality of the broker's service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates or prices available. Daemon IAM negotiates a flat brokerage fee and, when applicable, a variable completion brokerage fee (*i.e.*, a commission) with the brokers that it uses to execute transactions. Daemon IAM believes the following are some factors that contribute to efficient execution, although Daemon IAM is not required to weigh any of these factors equally:

- (i) size of the order;
- (ii) the ability to effect prompt and reliable executions at favorable prices (including the applicable broker commission, if any);
- (iii) operational capabilities and facilities of the broker or dealer involved;
- (iv) the financial strength, integrity and stability of the broker; and
- (v) the prior experience of the broker or dealer in auctions sponsored by the Brazilian government and the Brazilian government bond markets.

These brokers may be used by both the Client and the Brazilian Fund. At all times, the Client and the Brazilian Fund will be subject to the same flat brokerage fee and the same variable completion brokerage fee, if applicable. If both the Client and the Brazilian Fund participate together in one auction, the fee will be pro-rated between them based on the notional value of the accepted offers.

## **ITEM 13 | REVIEW OF ACCOUNTS**

The Client and its investors receive the Client's written audited annual financial reports within four months of the end of the Client's fiscal year, December 31. The Client's audited annual financial reports are prepared in accordance with US Generally Accepted Accounting Principles ("US GAAP"). The Client and its investors also receive monthly statements of holdings and net asset value. Vitor Rhein Schirato, as the Chief Compliance Officer of Daemon IAM, is responsible for the reviews of the Client's account.

The Client is subject to the supervision of the Monetary Authority of the Cayman Islands, which may at any time instruct the Client to have its accounts audited and to submit them to the Monetary Authority within such time as the Monetary Authority specifies.

## **ITEM 14 | CLIENT REFERRALS AND OTHER COMPENSATION**

Daemon IAM does not permit its employees to accept any form of compensation, including cash, sales awards or other prizes, from non-clients for providing advisory services to its clients. At this time, Daemon IAM does not expect to receive compensation from referring the Client to other service providers; however, Daemon IAM retains the ability to do so in the future.

Daemon IAM may enter into arrangements with, and compensate, solicitors for client referrals. These solicitation arrangements will be fully disclosed to affected clients and will generally be consistent with the requirements of Rule 206(4)-3 under the Advisers Act. The terms of such arrangements will vary, but generally will call for Daemon IAM to pay the solicitor a fee equal to a percentage of assets under management, management fees, performance-based compensation, or a combination of asset size or fees borne by the Client or investor introduced to Daemon IAM by the solicitor.

## **ITEM 15 | CUSTODY**

Daemon IAM has custody of the Client's assets and maintains the Client's assets with one or more unrelated qualified custodians (generally of the Client's choice). The Client receives from the custodian account reports at least quarterly and the Client should carefully review those statements. While Daemon IAM will provide periodic reports to the Client, these reports should be carefully compared to the information provided by the custodian to ensure that all account transactions, holdings and values are correct and current.

Rule 206(4)-2 promulgated under the Advisers Act, as amended (the "Custody Rule") imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful). The Custody Rule imposes on advisers with custody of clients' funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients' funds or securities. However, an adviser need not comply with such requirements with respect to limited partnerships or pooled investment vehicles, if each limited partnership or pooled investment vehicle: (i) is audited at least annually by an independent public

accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. Daemon IAM relies upon this audit exception with respect to the Fund.

#### **ITEM 16 | INVESTMENT DISCRETION**

The Client and any future additional clients may engage Daemon IAM to provide discretionary advisory services. The Client gives Daemon IAM discretionary authority by executing an investment management agreement with Daemon IAM and may, in certain circumstances, limit or amend Daemon IAM's authority by giving Daemon IAM written instructions.

#### **ITEM 17 | VOTING CLIENT SECURITIES**

At this time, Daemon IAM will not vote proxies on behalf of the Client's account. Generally, our investment universe does not include securities that have voting rights. In the event that a proxy is issued by a security in the Client's account, we will forward to the Client all proxy solicitation and related materials, including annual and interim reports and any other issuer mailings. The Client may contact our Chief Compliance Officer at the telephone number or via email listed on the cover page of this Brochure with questions about any particular proxy solicitation they may have received.

#### **ITEM 18 | FINANCIAL INFORMATION**

Daemon IAM is not required to provide financial information in this Brochure because Daemon IAM does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months. Daemon IAM does not have any financial condition or commitment that impairs its ability to meet contractual and fiduciary obligations to clients. Daemon IAM has never been the subject of a bankruptcy proceeding.