

**Part 2A of Form ADV: *Firm Brochure***

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This brochure provides information about the qualifications and business practices of Proprietary Capital, LLC (“Proprietary Capital” or “Firm”). If you have any questions about the contents of this brochure, please contact us at 303-575-9084 or [compliance@prop-cap.com](mailto:compliance@prop-cap.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

This brochure does not constitute an offer to sell or the solicitation of any offer to buy any securities of any entities described herein. Registration as an investment adviser does not imply a certain level of skill or training.

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

## **Item 2     Material Changes**

Proprietary Capital is amending its Brochure to reflect updates since its last update on August 15, 2023. Since the last update, there have been no material changes.

Recipients of the Brochure are encouraged to read the Brochure carefully in its entirety.

Proprietary Capital will send clients either an updated Brochure or a summary of any material changes to this and subsequent Brochures on at least an annual basis. Clients are encouraged to read the Brochure in detail and contact the Firm with any questions. The latest version of the Brochure can be accessed via the SCE Website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), or by requesting a copy by contacting Proprietary Capital at (303) 575-9084.

The information set forth in this Brochure is qualified in its entirety by reference to each Fund's Governing Documents (as defined herein). In the event of a conflict between the information set forth in this Brochure and the information set forth in each Fund's Governing Documents, the Fund's Governing Documents shall take precedence.

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## Item 4    **Advisory Business**

### *A.    Firm Information*

Proprietary Capital, LLC (“Proprietary Capital” or the “Firm”) is registered as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”)<sup>1</sup>. Proprietary Capital, which was founded in 1997, has its principal place of business in Denver, Colorado

The Firm is managed by co-founder and Managing Member, Craig A. Cohen, who is also the owner of the Firm.

### *B.    Description of Advisory Services*

Proprietary Capital manages four types of clients (each, a “Client” and collectively, the “Clients”) pursuant to an investment management agreement (“IMA”): (i) open end private investment funds (“Hedge Funds”), (ii) closed-end private investment funds (“Debt Funds” and collectively with the Hedge Funds, the “Funds”); (iii) individually managed fee-paying separate accounts for institutions and similar investors (“Institutional Accounts”), and (iv) individually managed non-fee-paying separate accounts for certain individual and similar investors (“Relationship Accounts” and collectively with the Institutional Accounts, the “Separately Managed Accounts”).

Proprietary Capital operates in accordance with the terms set forth in the limited liability company agreement or IMA (together with private placement memoranda and, as applicable, any side letter agreements negotiated with Fund investors, the “Governing Documents”) of such Client, which includes specific information concerning the operation and management of each Client. Proprietary Capital has the authority to recommend all investment decisions for each Fund, subject to compliance with the investment criteria set forth in the Governing Documents of the relevant Fund, however, advisory services can be tailored to the needs of the Separately Managed Accounts as is discussed further below in Item 4.C.

Proprietary Capital’s investment activities focus primarily on: (i) investing in mortgage and housing-related securities, their derivatives and other financial instruments linked to the mortgage and housing market; and (ii) investing in federally guaranteed or insured loans (“Federally Guaranteed Loans”). Investments in Funds and Institutional Accounts may include, without limitation:

- Residential mortgage-backed securities (“RMBS”)
- Derivatives of RMBS
- Collateralized mortgage obligations
- Options
- United States government securities
- Futures contracts on intangibles
- Swaps
- Swaptions
- Residential mortgage whole loans
- Mortgage and Housing-related preferred and common equities
- Re-securitizations

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<sup>1</sup> Registration of an investment advisor does not imply any level of skill or training

- Federal Housing Administration insured loans
- Veterans Affairs loans
- US Department of Agriculture loans
- Department of Indian Affairs loans

Investments in Relationship Accounts may include some of the investment instruments listed above. They may also invest in exchange-traded funds (“ETFs”) and closed-end bond funds (“CEFs”). If qualified, beneficial owners of Relationship Accounts may also invest in Funds through their account.

#### *C. Availability of Tailored Services*

The Firm tailors its advisory services to the individual needs of a Separately Managed Account. Separately Managed Accounts may place limitations on the types of instruments that may be purchased for their accounts. Because some types of investments involve certain additional degrees of risk, they will only be purchased for a Separately Managed Account when consistent with that account’s investment objectives, tolerance for risk, liquidity and suitability.

#### *D. Wrap Fee Program*

Proprietary Capital does not participate in wrap fee programs.

#### *E. Assets Under Management*

As of December 31<sup>st</sup>, 2023, Proprietary Capital managed \$1,927,838,000 of Client assets on a discretionary basis and no assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

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

##### Hedge Funds

Fee arrangements for Hedge Funds include a combination of a management fee and performance-based compensation (i.e., an “incentive fee”). The standard management fee for Hedge Funds is calculated at an annual rate of 0.85% of assets under management. Incentive fees on the Hedge Funds range from 10% to 30% of the net profits above a “high water mark”. To the extent that the amount of an investor’s account’s net profits is less than the high-water mark, there is a loss carryforward allocation that must be recouped before Proprietary Capital is entitled to an Incentive Fee.

##### Debt Funds

Fee arrangements for Debt Funds include a combination of a management fee and performance-based compensation (i.e., “carried interest distributions”). The standard management fee for commingled Debt Funds is calculated at an annual rate of 1%-1.5% of assets under management. Carried interest distributions represent a share of distributions to be received by an investor in a Debt Fund in excess of the relevant investor’s invested capital, and allocable fees and expenses. Carried interest distributions may be applied each time an investment is

realized or on an annual basis with respect to certain investors in the Debt Funds. Carried interest distributions are subject to certain preferred return hurdles, catch-up allocations and clawback provisions. The manner of calculation and application of carried interest distributions are provided for in the Governing Documents for each applicable Debt Fund. For more information, please see “Performance-Based Fees and Side-By-Side Management” (Item 6).

Fees for each Fund are determined in accordance with such Fund’s Governing Documents. Fees payable by investors in the Funds are generally not negotiable. However, Proprietary Capital reserves the right to waive any fees or compensation payable to it by an investor in a Fund at any time, in accordance with the terms of the Governing Documents of the respective Fund. Any variation or waiver in fees will generally require the approval of a Fund’s board of directors (or similar oversight board).

Fee arrangements for Institutional Accounts include a management fee and may also include an incentive fee. The incentive fee is generally similar in structure to the incentive fees charged by the Hedge Funds but will be negotiated with the Institutional Account at the time the parties enter into an IMA.

Relationship Accounts will not be charged a management fee or an incentive fee. However, to the extent that any Relationship Account invests in a Fund, the beneficial owner of such account will pay to the Fund management and performance-based compensation attributable to the beneficial owner’s investment in the Fund.

Management fees are based on the value of assets of a Client. With respect to the Funds, the value of assets in each Fund is determined pursuant to that Fund’s written valuation policy. For liquid investments with readily available prices, those prices are used. When readily available prices are not available, the Firm uses a variety of methods to accurately value the investments.

Proprietary Capital faces a conflict of interest in valuing the assets that lack a readily available market value because the assigned value generally affects the fees payable to Proprietary Capital, as well as reported investment performance. With respect to these investments, Proprietary Capital uses various valuation methodologies that are based on the nature of the assets, as set forth in the applicable written valuation policies. While consistency is sought, these methodologies are inherently subjective and often produce a range of values that may be considered reasonable. Values assigned by the Firm in its judgment may be different from the values that others would assign. To help increase the level of independence applied to the valuation process, the Hedge Funds have adopted written valuation policies that require a Hedge Fund’s administrator to review the values assigned by Proprietary Capital. A Hedge Fund’s administrator uses independent pricing information to confirm that the value assigned to each holding is within an acceptable tolerance range.

There is no assurance that the valuations determined by Proprietary Capital represent values that can or will be realized in a sale or exchange of investments. On a quarterly basis the Firm’s Pricing and Allocation Committee, composed of certain Proprietary Capital employees, reviews the Firm’s compliance with the applicable valuation policies. Deviations from, or material amendments to, each Fund’s valuation policy, require the approval of the respective board of directors (or similar oversight board).

With respect to each Managed Account, the final value and performance of assets is determined by the Managed Account's administrator or custodian, as applicable.

**B. *Payment of Fees***

For the Funds, all fees are deducted directly from the assets in each Fund. Institutional Accounts pay Proprietary Capital outside of the account after receipt of an invoice.

Management fees on Institutional Accounts are payable quarterly in arrears and are generally calculated based on the value of assets in the account (as of the beginning of each month or quarter, as appropriate). If an investor in a Hedge Fund subscribes for additional interests during a billing period, the management fee on the amount of that subscription will be prorated.

A Separately Managed Account IMA may be canceled by either party for any reason upon receipt of written notice in accordance with the terms of the respective IMA. Institutional Accounts that terminate their IMA's prior to the end of a fiscal year will be charged an incentive fee, if applicable, based on the performance of the Institutional Account through the termination date. Similarly, for investors in the Hedge Funds who withdraw money other than at year-end, such investors' accounts will be charged an incentive fee, if applicable, on the portion of the money withdrawn.

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

Each Fund will pay certain organizational, operational and other permissible expenses as described in the Governing Documents for each Fund. These permissible expenses generally include, but are not limited to: brokers' fees and commissions, pricing/valuation and analytics expenses, organizational costs, directors' fees, insurance, regulatory and filing expenses, research, custody, legal, indemnification, audit, administrative and accounting fees, dissolution and liquidation fees and other expenses. From time-to-time, Proprietary Capital may pay for certain of these expenses out of its own assets. Proprietary Capital generally seeks reimbursement of these expenses directly from the Funds on a cost reimbursement basis only. The Funds pay no interest or carrying charges associated with expense payments made on their behalf by Proprietary Capital. Certain trade errors may also be allocated to a Fund.

The Debt Funds will also pay certain additional operational and other permissible expenses as described in the Governing Documents for each Debt Fund. These additional permissible expenses generally include, but are not limited to: private placement fees and finder's fees, interest on borrowed money, proportionate share of Lynx Whole Loan Acquisition LLC's ("LWLA") operating expenses, including but not limited to, regulatory, governmental and state fees and taxes, insurance, fidelity bonds and surety bonds, due diligence of servicers including travel for on-sight due diligence, custody, legal, accounting, administration, master services and other service provider fees and expenses, out of pocket expenses of LWLA's members related to the foregoing and LWLA's obligation to pay its Managing Member a fee in consideration of such Managing Members' undertaking to maintain LWLA's minimum regulatory net worth. The new worth maintenance fee is calculated at the rate of 10% per annum of LWLA's maintained regulatory net worth level.

In addition to management and other fees charged by the Firm, Institutional Accounts are responsible for the fees and expenses charged by custodians and the costs of trading charged by broker dealers (and other trading intermediaries, if applicable), including brokerage

commissions and related transaction costs.

Relationship Accounts will be responsible for fees and expenses charged by custodians and the costs of trading charged by broker dealers. To the extent that a Relationship Account invests in ETFs or CEFs, Relationship Accounts will also bear the underlying management fees associated with the ETF or CEF.

Please refer to "Brokerage Practices" (Item 12) for additional information.

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

Each Fund and Institutional Account provides for the payment of performance-based compensation to Proprietary Capital. However, the performance-based compensation arrangements for the Funds and the Institutional Accounts vary. For example, Proprietary Capital receives performance-based compensation at different rates for the Hedge Funds and the Institutional Accounts and of a different type (i.e., a carried interest distribution) with respect to the Debt Funds.

Performance-based fee arrangements may create an incentive for Proprietary Capital to recommend investments that may be riskier or more speculative than those that would be recommended under different fee arrangements. Such fee arrangements also create an incentive to favor higher fee-paying Clients over other Clients that implement a similar investment strategy but charge lower performance-based compensation (known as "side-by-side management"). This incentive could cause the Firm to allocate the best investment opportunities and the better-executed trades to the higher-fee paying Client.

Proprietary Capital has adopted written policies and procedures intended to address conflicts of interest relating to the management of multiple Clients and the allocation of investment opportunities across these Clients, as applicable. Such policies and procedures are intended to help ensure that all Clients are treated fairly over time. The Firm believes that conflicts are mitigated by its trade allocation policy. Please refer to "Brokerage Practices" (Item 12) for additional information about allocation. In addition, the Firm has created a Pricing and Allocation Committee that meets quarterly to review Client accounts for compliance with allocation policies.

## **Item 7 Types of Clients**

Proprietary Capital provides investment advice to private funds (i.e., the Hedge Funds and Debt Funds) and to the Separately Managed Accounts whose beneficial owners may be, for example, pension plans, trusts or other types of institutions.

The minimum initial investment in a Hedge Fund ranges from \$500,000 to \$1,000,000 and such minimum in a Debt Fund \$500,000 - \$1,000,000, subject to waiver, reduction, or increase by the Firm or by a Fund's board of the directors (or oversight board), as the case may be. Potential investors must meet the specific requirements set forth in the respective Fund's subscription document in order to invest in the Fund. Proprietary Capital may negotiate separate agreements, commonly referred to as "side letters," with individual Fund investors. The side letter provisions, which are not found in the Fund's governing documents, may entitle these investors to different



terms and conditions related to minimum investment, fees, reporting, liquidity, and/or notifications, among other terms.

Generally, a significant initial investment is required for an Institutional Account. No investment minimum is required for Relationship Accounts.

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

### **A. Methods of Analysis**

Proprietary Capital uses the following methods of analysis in formulating its investment advice and/or managing Client assets:

*Fundamental Analysis.* Proprietary Capital attempts to measure the intrinsic value of various classes of securities by analyzing economic and financial factors, such as housing market data, interest rates, prepayment rates (an unscheduled repayment of principal by the homeowner on a mortgage), corporate earnings, book value, and other economic factors affecting the housing and mortgage finance industry. The Firm targets investments that provide a balance of value, yield, and potential for price appreciation based on these economic and financial factors. The Firm may also analyze pending litigation and other issues that could affect the value of a security.

*Cyclical Analysis.* In this type of technical analysis, the Firm measures the movements of the mortgage-related investments market against the overall market in an attempt to predict the price movement and yield of an investment. Proprietary Capital relies on various in-house analytical tools to forecast prepayment levels in analyzing mortgage-related fixed-income securities and also uses multiple prepayment and valuation models designed to assess the impact of future interest rate changes on the prices of securities and other investments in a Client's portfolio.

*Market Research.* Proprietary Capital has access to various market research and databases which the Firm utilizes to analyze various securities. The Firm utilizes databases of regional price indices, which are used to monitor regional housing trends, as well as an extensive database of historical prepayment statistics. The Firm also leverages third party research providers, including sell-side analysts and traders, in order to gain access to proprietary market surveys, data, company earnings models, and corporate access. The Firm uses these databases and research providers when constructing and monitoring a portfolio of mortgage-related fixed income and equity investments.

### **B, C. Material Risks of the Firm's Investment Strategies, Methods of Analysis and Types of Securities**

Fundamental analysis does not attempt to anticipate market movements. Rather, it seeks to identify securities (and other investments) that are trading at a discount to intrinsic value. Investing in this way exposes investors to the risk that the price of a security, even if "undervalued," can move lower along with the overall market regardless of the economic and financial factors considered in evaluating the investment. Further, the Firm's evaluation of the intrinsic value of an investment may not be accurate.

Cyclical analysis relies heavily on historical patterns and relationships. There is a risk that the movement of various securities and other investments and their relationships will differ from what

has been previously experienced. There is also a risk that the Firm's models will be inaccurate.

Proprietary Capital must continually evaluate a significant number of factors when constructing and monitoring a portfolio, such as economic and interest rate trends, the condition of the housing market, and changes in prepayment rates. There is always a risk that the Firm's analysis (and market research) may be compromised by inaccurate or imperfect information.

Depending upon a Client's objectives, the Firm will utilize a variety of securities and other investment instruments. Not all Clients will hold the same securities (or other investments) or the same types of securities (or other investments). Securities and other investments may be held for greater than one year (long-term purchases) or less than one year (short-term purchases).

In implementing Clients' investment strategies, Proprietary Capital utilizes a variety of housing and mortgage-related fixed income securities, including residential mortgage-backed securities (RMBS). These securities, directly or indirectly, represent interests in mortgage loans secured by real property. The Firm may also invest in whole loans and in a variety of other housing and mortgage-related investments, including equities associated with the housing and mortgage market.

Each Hedge Fund's private placement memorandum contains a list of its "Eligible Investment Universe." For Separately Managed Accounts, the IMA and the respective investment guidelines, if any, will determine the types of investments that may be made.

The following paragraphs describe the types of investments typically made by the Hedge Funds and Institutional Accounts. Relationship Accounts will generally only invest in a subset of these types of securities.

Principal investments involve "Agency RMBS," which are issued or guaranteed by the United States government or one of its agencies or instrumentalities, such as Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), or Federal Home Loan Mortgage Corporation ("FHLMC"), and "non-Agency RMBS," which are mortgage-backed securities that are composed of mortgages that do not conform to the underwriting guidelines of FHLMC, FNMA, or GNMA. Other principal investments include "credit risk transfer" securities (or "CRTs"), residential mortgage whole loans (non-securitized mortgages), and housing and mortgage-related equities (preferred and common stock) on a long or short basis, and in ETFs and CEFs.

The Firm may invest in a wide variety of other types of mortgage-related securities, including pass-through certificates ("to be announced," also known as "TBAs", and "specified pools"), collateralized mortgage obligations, stripped mortgage-backed securities (which may receive interest only, in the case of IOs, and principal only, in the case of POs), and call rights. The Firm may also invest in, among other things, other derivative RMBS, synthetic sectors, structured securities, re-securitizations, collateralized debt obligations (CDOs), mortgage servicing rights, swaps (including credit default swaps), and futures contracts. A Hedge Fund may sponsor the issuance of various types of securitizations and re-securitizations, including securitizations of residential whole loans and re-securitizations of RMBS.

In employing investment strategies, Proprietary Capital can employ certain hedging strategies in

an attempt to “hedge” or “neutralize” the market risk associated with positions in a Client’s portfolio. The instruments that are used when employing these strategies include various derivative instruments, such as options, swaptions, futures, interest rate swaps, total return swaps, credit default swaps, and other derivative securities. The Firm may also seek to hedge or neutralize risk by engaging in short transactions (where the Firm borrows certain securities to sell and then repurchases them at a later date). Additionally, U.S. Treasuries, Agency TBA and specified pools are utilized for hedging purposes. Certain equity securities of mortgage industry-related companies and indices, including options thereon, may be used on a limited basis for hedging purposes. The Firm’s hedging techniques could be unsuccessful.

Some of the investments in which Proprietary Capital trades are not readily marketable and are deemed illiquid. In the absence of an established trading market, valuing such investments is difficult and it is possible that Proprietary Capital may pay too much for an investment or may be unable to sell a security for the amount Proprietary Capital believes it is worth. Accordingly, if a Client account includes investments where prices are not readily available through third party pricing, the net asset value of the portfolio will be based, in part, on the valuations placed on portfolio assets by Proprietary Capital (with review by a third-party administrator) with reference to comparable securities. Additional information regarding valuation policies is set forth in “Fees and Compensation” (Item 5).

The Firm’s investment strategies are intended to permit Clients to achieve positive returns under a wide range of economic scenarios. However, there is no assurance that the investment strategies will be achieved or that significant losses will not be incurred. There are various substantial risks associated with these investment strategies. There are many market-related risks and other factors--some of which cannot be anticipated--that could cause the loss of a major portion of an investment. Investors should not invest in a Client unless they are fully able, financially and otherwise, to bear such a loss, and unless the investors have the background and experience to understand the risks of the investment. Risks include natural disasters, pandemics, terrorism and similar events that may affect the economy broadly and the housing industry specifically.

The returns realized under the Firm’s investment strategies will be affected by many factors, including, but not limited to, the following:

*Volatility of Investment Markets.* Agency and non-Agency derivative RMBS are interest rate and/or credit sensitive and may become out-of-favor or experience a significant supply-demand imbalance if economic, interest-rate or technical factors emerge. A significant supply-demand imbalance generally affects bid-to-offer spreads, as well as increased market volatility. Similarly, significant economic events may affect the value of RMBS and other instruments in which the Firm invests. Some instruments in which the Firm invests are more volatile than others. To the extent that market volatility affects RMBS investments, it is also likely to affect other housing or real estate related instruments in which the Firm invests.

*No Guarantee of Investment Performance.* Proprietary Capital cannot guarantee that the investment objectives of a Client will be achieved or that positive or competitive investment returns will be achieved. The Firm cannot control market, regulatory, and other factors which affect performance. Investors bear the risk that they could lose all of their investment.

*Non-Diversification and Sector Concentration.* Investments will be concentrated in Agency and non-Agency RMBS, and other housing and mortgage-related fixed income and equity securities. Non-diversification among market sectors involves an increased risk of loss to investors. Further, investments, at times, are concentrated in those investment sectors that exhibit the most favorable risk-return characteristics and, as a result, a Client will maintain high exposure to applicable risk factors.

*Complex and Derivative Securities.* Non-Agency RMBS are, by nature, illiquid and difficult to value in declining markets. Proprietary Capital may employ leverage in the purchasing of mortgage-backed derivatives. Additionally, the instruments themselves may be inherently leveraged. For mortgage derivatives and structured securities that have embedded leverage features, small changes in interest or prepayment rates may cause large and sudden price movements.

*Credit Risk.* RMBS and Whole Loans may not have any government guarantee of repayment. Investments not having a guarantee of the timely payment of interest and principal may experience a principal write-down or loss due to the inability to recover sufficient proceeds when delinquent mortgage loans and their related collateral are liquidated.

*Derivative Securities.* The Firm may purchase for Clients derivative tranches of RMBS re-securitizations in both the Agency and non-Agency sectors. Derivative securities primarily maintain an embedded levered response to floating rate index and or prepayment rates. Thus, derivative securities may exhibit significantly more volatile pricing than non-derivative RMBS, as small changes in interest or prepayment rates may cause large and sudden price movements. Derivative instruments may also be used for hedging purposes. If these derivatives do not perform as expected, this may cause additional loss.

*Duration Risk.* Duration is the primary measure of risk within fixed-income securities. Duration measures the approximate price sensitivity of a security to a one percent (1%) rise or fall in interest rates. For example, everything else being equal, if interest rates rise by 1%, a security with a duration of 3 would expect its share price to decline by about 3%; conversely, if interest rates fall by 1%, a security with a duration of 3 would expect to see about a 3% rise in price. The duration of many of the securities in which the Firm invests can be significantly higher than traditional fixed income securities. Proprietary Capital seeks to manage duration risk; however, changing conditions and perceptions, including market fluctuations, may modify an obligation's duration and, independently, have other effects on the value of a security. Prices of fixed income securities with longer effective maturities are more sensitive to interest rate changes than those with shorter effective maturities. Although the stated maturity of a mortgage-backed security is typically 30 years, current prepayment rates are critical in determining such security's interest rate risk. As a result, Proprietary Capital relies upon analytical techniques, such as modeling monthly principal and interest payments based upon historical experience or comparing the mortgage rates underlying the security to prevailing market rates to determine a security's "effective duration." The determination of effective duration typically will involve the Firm's judgments and assumptions of future prepayments. Such judgments and assumptions may change, sometimes materially, with changes in market interest rates.

*Prepayment Risk.* Prepayment levels can have a significant effect on an investor's return. There are many determinants of prepayment levels for RMBS and Whole Loans, such as the economic incentive to refinance from a rate perspective (e.g., lower current interest rates), price change of

the home, credit requirements for the borrower, and minimum equity requirements of the borrower, among many others. An increase in mortgage prepayments may result in loss of principal on an investment.

*Capital Risk.* The Firm invests in interest-only securities (“IOs”). IOs receive payments of interest only on the remaining balance of a security and do not receive payments of principal. The longer the period of time in which the underlying bond has principal outstanding, the longer the security continues to pay interest. When prepayment levels increase to a certain point, IO holders may not be able to recoup their initial investment over the life of their holdings, resulting in a realized loss on investment.

*Interest Rate Risk.* The value of fixed-income securities generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise so that the value of fixed-income instruments will fall. Interest rate risk may be greater with respect to higher quality bonds, such as U.S. government bonds, than on lower quality bonds. Also, interest rates impact the prices of GNMA pools. When interest rates are rising, the price of re-pooled MBS falls. Therefore, if interest rates increase to a point where GNMA pools trade at a discount to par, the profit from a par price purchase and sale into the open market becomes uneconomic, resulting in a large reduction in return potential.

*Economic Risk.* Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws, natural disasters, pandemics and similar events, and innumerable other factors can affect substantially and adversely a Client’s performance results.

*Investment Competition.* The market for some types of securities is highly competitive. The Firm will be competing for investment opportunities with a significant number of financial institutions, other private funds as well as various institutional investors. Many of these competitors are larger and have greater financial, human and other resources than Proprietary Capital and may, in certain circumstances, have a competitive advantage over the Firm. As a result of this competition, Proprietary Capital may find fewer attractively priced investment opportunities, which could have an adverse impact on the Firm’s ability to meet an investment objective.

*Borrowing and Leverage.* Clients may borrow money to invest in additional securities or other instruments. This practice significantly increases market exposure and risk. When borrowed money is utilized, investments purchased may increase or decrease in value more than if borrowed money had not been used (possibly by multiples, depending upon the degree of leverage employed at such time). In addition, the interest that must be paid on borrowed money will reduce the amount of any potential gains or increase any losses. In certain circumstances, market prices may fall to a level that would trigger a margin call and would require the Funds to provide additional capital to leverage providers. In the event such additional capital is not available, the Fund may have to sell securities at a price below intrinsic value resulting in a loss. Margin calls that cannot be satisfied are risks to the Funds.

*Illiquid Securities and other Illiquid Investments.* The Firm may purchase for Clients securities and other investments that are not readily marketable. As such, the Firm may find it difficult to readily dispose of illiquid investments in the ordinary course of business. In addition, a premature or forced liquidation of a Client’s holdings is likely to depress the value of many of these securities. Illiquid investments may not have an established trading market. In the absence of

an established trading market, Proprietary Capital will, in its sole discretion, value such investments in good faith at each time a Client's net asset value is determined. Accordingly, if a significant amount of Client assets is invested in illiquid investments, the net asset value of the Client will be based in significant part on the valuations determined by Proprietary Capital without reference to a liquid market for such investments.

*Futures Contracts.* Proprietary Capital may transact in futures contracts on behalf of a Client and may use such futures for investment or hedging purposes. Futures contracts are exchange-traded contracts that provide for the future delivery of various commodities, currencies or financial instruments at a specified time and place. Futures contracts are customarily bought and sold on margins that may be as low as less than two percent of the purchase price of the contract being traded. Because of these low margin rates, prices, profits and losses can be extremely volatile. If futures are used for hedging purposes, Clients may experience losses if the values of futures positions are poorly correlated with the relevant positions.

*Swaps.* Clients may enter into swap agreements. Swap agreements are typically contracts entered into by institutional investors for short to long-term periods. The Clients will not have any direct ownership of the underlying investment. In a standard "swap" transaction, parties agree to exchange payments based on pre-specified formulas. Certain swap transactions may be highly illiquid. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty with respect to swaps that are not cleared on an exchange. A Client's ability to terminate swaps, trade swaps, or realize amounts to be received under swaps could be affected by new regulation.

*Short Sales.* Certain Clients may engage in short sales of securities. Short sales are transactions in which a Client sells a security it does not own (by borrowing it) in anticipation of a decline in the value of that security. At a point, the Client must replace the security borrowed by purchasing it at the market price. At such time, the price may be more or less than the price at which the security was sold by the Client. A Client will incur a loss if the price is higher at the time the security is replaced. A Client may also have to pay other expenses associated with selling a security short. Certain Clients may elect to engage in short sales of equity securities related to the mortgage industry. With regard to equity securities that are sold short, a Client's risk is theoretically unlimited.

*Hedging Transactions.* A Client may hedge against fluctuations in the relative values of its portfolio positions as a result of certain changes in the equity markets. Hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the value of a Client or prevent loss. Hedging transactions may also limit the opportunity for gain if the value of Client positions increases.

*Option Transactions.* A Client may purchase or sell "put" and "call" options and other derivative securities without limitation. These options involve a high degree of embedded leverage, which can involve greater market risk, especially when such transactions are not used to hedge the underlying portfolio securities.

*Securitizations.* Sponsoring a securitization or re-securitization exposes a Client to unique risk factors, such as liability for any breaches of representations and warranties required as sponsor of the applicable transaction with respect to investment assets deposited into the transaction. In addition, pursuant to "risk retention" requirements a Client is generally required to retain

ownership of transaction securities representing at least 5% of the credit risk of the assets collateralizing each securitization or re-securitization transaction it sponsors for at least five years. Sponsoring securitization or re-securitization transactions also exposes a Client to risks as an “issuer” under federal and state securities laws.

*Whole Loans.* Whole Loans may be performing or non-performing. Non-performing loans may be brought back to current pay (performing) status, but there can be no assurance that this will be the case. In the event any acquired mortgage loan remains non-performing, a Fund may not receive any cash flow on, may experience an investment loss with respect to, and may not be able to find a purchaser for, such mortgage loan.

*Whole Loan Capital Risk.* The Debt Funds may purchase Whole Loans utilizing financial leverage. In the event that market prices decline to a level that results in a margin call, the Debt Funds’ capital may be insufficient to meet these margin calls resulting in a capital loss.

*Whole Loan Counterparty Risk.* The Debt Funds are exposed to the risk that the servicer of its Whole Loans becomes financially insolvent or operationally unable to perform its servicing functions. In these situations, the servicing of the Whole Loans will need to be transferred to another mortgage servicer. The interruption of servicing may delay and potentially impact the timing of the Debt Funds’ cash flow of the underlying loans and result in reduced or negative investment returns. Additionally, if mortgage servicers do not follow FHA, VA, USDA and GNMA guidelines when performing a loan modification, the loan may become ineligible to be re-pooled into GNMA MBS and potentially could trade at a discount to par value, resulting in a loss to the Debt Funds.

*Whole Loan Credit Risk.* While the FHA guarantees 100% of its principal, investment VA guaranteed and USDA Whole Loans are exposed to a partial guarantee of principal under certain instances. Therefore, the potential exists that recovery amounts on these Whole Loans are less than their principal balances resulting in a loss on investment.

*Interest Rate Risk.* Interest rates impact the prices of GNMA pools. When interest rates are rising, the price of re-pooled MBS falls. Therefore, if interest rates increase to a point where GNMA pools trade at a discount to par, the profit from a par price purchase and sale into the open market becomes uneconomic, resulting a large reduction in return potential.

*Re-pooling Risk:* Interest rates impact the prices of GNMA pools. When interest rates are rising, the price of re-pooled MBS falls. Therefore, if interest rates increase to a point where GNMA pools trade at a discount to par, the profit from a par price purchase and sale into the open market becomes uneconomic, resulting a large reduction in return potential.

*Licensing Risk.* If LWLA fails to comply with regulations of FHA, VA, USDA, state or other regulatory agencies, LWLA would lose its licenses and become ineligible from owning government Whole Loans. This would result in the Debt Funds having to sell its assets to other approved Whole Loan investors, which could occur at below fair value and could result in an inability to fully execute its investment strategy.

*Common Equities.* Equities represent ownership interests in issuers. The value of equity securities fluctuates in response to the performance of the issuer, valuations across markets and

industries, and political, market, and economic developments. Certain equities can be highly volatile.

*Exchange Traded Funds (ETFs).* ETFs are shares of other investment companies, commodity pools, or other entities that are traded on an exchange. Typically, assets underlying the ETF shares are stocks, though they may also be commodities or other instruments. An ETF may seek to replicate the performance of a specific index or may be actively managed. Shares of an ETF that tracks an index are expected to increase in value as the value of the underlying benchmark increases. In the case of inverse ETFs, ETF shares are expected to increase in value as the value of the underlying benchmark decreases. Investments in inverse ETFs are similar to holding short positions in the underlying benchmark. The purchase of ETFs results in the layering of expenses, such that a Client would indirectly bear a proportionate share of any ETF's operating expenses. ETFs may trade in the secondary market (e.g., on a stock exchange) on an intra-day basis at prices that are above or below the value of their underlying portfolios. Leveraged ETFs seek to deliver multiples of the performance of the index or other benchmark they track and use derivatives in an effort to amplify the returns (or decline, in the case of inverse ETFs) of the underlying index or benchmark and can be extremely volatile.

*Preferred Securities.* Preferred securities may take the form of preferred stock and represent an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event an issuer is liquidated or declares bankruptcy, the claims of owners of bonds generally take precedence over the claims of those who own preferred and common stock. The risks of investing in preferred securities reflect a combination of the risks of investing in equities and fixed income securities. The risks of a particular preferred security will depend upon the terms of the instrument. Preferred securities are potentially more volatile and carry greater market and liquidity risks than traditional debt or equity securities. Also, the price of the preferred security and any applicable reference instrument may not move in the same direction or at the same time.

*No Withdrawals; Discretionary Distributions.* Investors may not make voluntary withdrawals from certain Debt Funds or require when distributions shall be made. As a result, investments will be subject to investment risk throughout the term of the applicable Debt Fund. In addition, investors will need other resources to pay taxes with respect to their investments in the applicable Debt Fund, as well as meet other liquidity needs.

*Required Withdrawals/Redemptions.* In general, the Firm may require the complete or partial withdrawal of an investor from the Debt Fund in certain circumstances, which could materially adversely impact such investor.

*Long-Term Commitment by Investors.* Investors likely will be committed to certain Debt Funds for at least two years. Investors will not be able to withdraw capital contributions or terminate their capital commitments, irrespective of material adverse changes in the world economy or applicable laws, regulations or taxes, or the applicable Debt Fund's or the investors' own financial conditions.

*Substantial Expenses.* An investment in the Funds is subject to substantial fees and expenses. The Funds are subject to Management Fees irrespective of the profitability of the Funds, as well as administrative fees payable to the administrator for fund administration and related services and servicing related fees. Given the Funds' investment strategies, these expenses are



expected to be substantial. Such profits as the Funds are able to achieve are also potentially subject to performance-based compensation.

*Use of Estimates.* Proprietary Capital (or its delegate) is authorized to make all financial (and the related tax) allocations and to determine all net asset values, based on estimates and unaudited financial information. Real estate market valuations may be sufficiently uncertain such that the estimates used by the Funds may be materially inaccurate.

*Cybersecurity Breaches.* The Funds and their service providers, including Proprietary Capital, are subject to risks associated with a breach in their 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, the Funds 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 also have other adverse impacts on the Funds.

*Disease Outbreaks Risks.* Disease outbreaks that affect local economies or the global economy may materially and adversely impact the Funds and their investments. For example, uncertainties regarding the novel Coronavirus (COVID-19) outbreak have resulted in serious economic disruptions. These types of outbreaks can be expected to cause severe decreases in core business activities such as manufacturing, purchasing, tourism, business conferences and workplace participation, among others. These disruptions lead to instability in the marketplace, including stock market losses and overall volatility, as has occurred in connection with COVID-19. In the face of such instability, governments may take extreme and unpredictable measures to combat the spread of disease and mitigate the resulting market disruptions and losses. The current market environment that has followed the emergence of COVID-19 may lead to a recession or depression in the United States or worldwide. This outcome is more likely to occur and be more severe if a weak economy is accompanied by significant changes in interest rates, stresses in the financial markets market or actual or potential changes in the legislative and regulatory environment. A recessionary economy may have an adverse effect on the Funds. In the event of a pandemic or an outbreak, there can be no assurance that Proprietary Capital and the Funds’ service providers will be able to maintain normal business operations for an extended period of time or will not lose the services of key personnel on a temporary or long-term basis due to illness or other reasons. The full impacts of a pandemic or disease outbreak are unknown, resulting in a high degree of uncertainty for potentially extended periods of time.

## **Item 9     Disciplinary Information**

Proprietary Capital has no disclosures to make in this regard with respect to the Firm or any management persons or other personnel.

## **Item 10     Conflicts of Interest and Other Financial Industry Activities and Affiliations**

The Firm has formed LWLA to serve as the licensed entity to acquire and to maintain legal title to the Federally Guaranteed Loan investments made on behalf of the Debt Fund. The Firm and LWLA have entered into an IMA through which the Firm will be responsible for maintaining the required licensure of LWLA. The Firm receives no separate compensation or fees from LWLA. However, the Debt Fund and each beneficial owner of a participation certificate issued by LWLA will be required to reimburse LWLA for its allocable share of LWLA's organization and ongoing operating expenses. These expenses include the Firm's annual obligation to pay LWLA's managing members, which include Craig Cohen and other senior members of the Firm's investment team, its net worth maintenance fee, a fee in consideration of such managing members' undertaking to maintain LWLA's minimum regulatory net worth as required by certain government regulators and certain bonding providers. This fee is calculated at a rate of 10% per annum of LWLA's maintained regulatory net worth level. The level and the amount of the net worth maintenance fee was not negotiated at arm's length.

Proprietary Capital has written procedures addressing the allocation of investment opportunities and the execution of Client trades that are designed and implemented to ensure that all Clients are treated fairly and equally over time and that no Client is systematically disadvantaged, provided that the Funds and Institutional Accounts will be prioritized before Relationship Accounts in the case of a limited opportunity (although it is not expected that Relationship Accounts will generally compete with the Funds and Institutional Accounts for investments available only as limited opportunities). Such procedures are generally described in "Brokerage Practices" (Item 12.D).

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

### **A.     *Code of Ethics***

Proprietary Capital has adopted a Code of Ethics (the "Code") that sets forth high ethical standards of business conduct for all of the Firm's employees and the firm's fiduciary duty to Clients. The Code, which includes the Firm's policies relating to conflicts of interest, confidentiality, the receipt of gifts and entertainment, personal trading and reporting, and insider trading, is intended to assist employees in carrying out their duties as fiduciaries to Clients. In general, employees must report any violations of the Code to the Chief Compliance Officer. The Code also describes disciplinary actions that may be taken in the case of employees who violate the Code.

A copy of the Firm's Code of Ethics is available to Clients and prospective clients. The Code may be requested by email sent to [compliance@prop-cap.com](mailto:compliance@prop-cap.com) or by calling the Firm at 303-

575-9084.

*B. Transactions in Securities in which the Firm has a Material Financial Interest*

Neither the Firm nor any of its related persons recommends to Clients, or buys or sells for Clients, securities in which the Firm has a material financial interest, except that (i) the Firm acts as general partner or managing member to the Funds, and (ii) the principal of the Firm and certain employees may maintain substantial investments in the Funds. As a result, the Firm may be considered to be recommending securities in which it has a material financial interest.

*C, D. Investing in Securities Recommended to Clients; Contemporaneous Trading*

The Firm does not maintain a proprietary trading account and, therefore, does not invest in the same (or related) securities that Clients purchase. The Firm has adopted procedures in its Code of Ethics to address potential conflicts of interest arising from personal account trading. The Firm permits its employees (and related persons) to invest in their personal accounts in the same securities or in related securities (e.g., warrants, options or futures on the securities) that are held by Clients. The Firm addresses potential conflicts involved in this trading in a number of ways: (1) Employees are not permitted to trade in a security on the same day that a Client is trading in the security; (2) Employees cannot trade in a security in anticipation of trading by a Client; (3) If an employee purchases (sells) a security that a Client may trade, the employee must hold that security for at least 30 days before selling (purchasing) it; and (4) Employees must "pre-clear" trades in securities in which a Client may trade (and such securities are identified on a "restricted list"). The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of the Firm will not interfere with making decisions in the best interest of Clients. Employee trading is monitored to ensure compliance with the Code of Ethics. To the extent that an employee purchases or sells interests in a Fund, the employee is generally subject to the same requirements relating to the timing of such purchases and sales as are other investors.

Proprietary Capital and its employees are prohibited from engaging in all trading with Clients.

## **Item 12 Brokerage Practices**

*A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Trades*

The Firm has no obligation to deal with any particular broker-dealer in the execution of trades for Clients. In placing orders with broker-dealers for Clients, Proprietary Capital's primary objective is the ability of the broker-dealer, in the Firm's opinion, to secure prompt execution on favorable terms, including the reasonableness of the trading costs and considering the state of the market at the time of the trade. While Proprietary Capital generally seeks competitive trading costs, it does not necessarily pay the lowest trading cost or mark-up.

The Firm may consider one or more of the following factors: trading costs, the nature of the security being traded, the size of the trade, the desired timing of the trade, activity in the market for the particular security, the financial stability of the broker-dealer, and the execution, clearance and settlement capabilities of the broker-dealer. Other factors may also be considered.

## *Research and Soft Dollars*

The Firm has in place an agreement pursuant to which it may earn soft-dollars. However, the Firm has not as of the date of this brochure or during the past fiscal year acquired any products or services using Client brokerage commissions (or markups or markdowns). Further, as of the date of this brochure and during the past fiscal year, the Firm did not place any trades to generate soft dollars.

If the Firm uses brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Firm will receive a benefit because it will not have to produce or pay for the research, or the products or services it receives. In such cases, the Firm may have an incentive to select or recommend a broker-dealer based on the Firm's interest in receiving the research or other products or services, rather than on the Clients' interest in receiving the most favorable execution.

The Firm may cause one Client to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits.

If the Firm generates soft dollars, it will use the soft dollars to benefit all Clients that trade in the securities related to the benefits received (i.e., research). However, it is possible that one Client may benefit from the soft dollars generated by another Client.

To the extent that the Firm uses any soft dollar arrangements, it will only use them within the "safe harbor" provisions of the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended. Section 28(e) provides a safe harbor for advisers that receive soft dollar benefits that are limited to certain research and brokerage products and services. If the Firm directs trades to obtain soft dollars, it anticipates that it will use the soft dollars to obtain research, which may be proprietary research generated by the broker-dealer or research developed by a third party.

### *B. Brokerage for Client Referrals*

The Firm does not select broker-dealers based on Client referrals.

### *C. Directed Brokerage*

The Firm does not routinely recommend, request or require that a Client direct the Firm to execute transactions through a specified broker-dealer. However, the Firm has required that Relationship Accounts be held at Charles Schwab & Co, Inc.

### *D. Trade Aggregation*

Proprietary Capital may, but is not required to, aggregate (or "bunch") Client trades. Trades may be aggregated only when Proprietary Capital believes that such aggregation is consistent with its duty to seek best execution and is otherwise permitted by Client investment guidelines (or similar). The Firm will not aggregate trades if it does not believe that Clients will receive a benefit

from such aggregation. When the Firm aggregates trades, transaction costs may be spread over multiple Clients, reducing average costs to each Client.

The Firm has also adopted trade allocation policies designed to treat Clients equitably over time. In allocating any particular purchase or sale to an account, the Firm may consider a wide range of characteristics of a Client, including available cash, current holdings, and the investment strategies of each Client. If a particular security is eligible for allocation to more than one Hedge Fund or Institutional Account, but the security is not available in an amount that permits allocation to more than one account, the Firm will use a rotational allocation policy. It may use separate rotational calendars for different categories of securities. In the case of a security that is appropriate for the Hedge Funds and the Institutional Accounts, but is also appropriate for a Relationship Account, the trade will be prioritized for the Hedge Funds and the Institutional Accounts. Relationship Accounts will trade after all other accounts.

Certain other procedures are used when a Client purchases securities in the primary market. Allocations to Funds and Institutional Accounts are reviewed by the Pricing and Allocation Committee on a quarterly basis. Trading and performance relating to Relationship Accounts are reviewed by the portfolio manager of those accounts. Relationship Accounts will not trade in the primary market.

## **Item 13    Review of Accounts**

### *A, B. Frequency and Nature of Review; Factors Prompting a Non-Periodic Review of Accounts*

The securities within the Funds and the Institutional Accounts are continually monitored by the Firm's investment team, including Craig Cohen, the Firm's managing partner, Mr. Cohen monitors the securities held in the Relationship Accounts. All Client accounts are reviewed in the context of each Client's stated investment objectives and guidelines. Extreme market conditions, including high volatility, or any unexpected or unusual news relating to a particular security may trigger a specific review of accounts or of particular securities, as appropriate.

### *C. Content and Frequency of Regular Account Reports.*

The Separately Managed Accounts receive monthly custodial statements and confirmations of trades directly from a "qualified custodian". On a monthly basis, Institutional Accounts also receive an estimated profit and loss statement and detailed security portfolio listing from their administrator. Proprietary Capital works with an Institutional Account's prime broker, custodian or third-party administrator throughout the month to assist with trade breaks, valuation issues, and other accounting issues to accurately produce monthly financials and NAV calculations.

Investors in the Funds receive unaudited monthly account statements directly from the third-party administrator for such Fund. Fund investors also receive monthly estimated performance from Proprietary Capital. Fund investors receive financial statements (a) prepared in accordance with GAAP, (b) audited by an independent accounting firm that is registered with, and subject to regular examination by, the Public Company Accounting Oversight Board ("PCAOB") and (c) distributed to the Fund's investors (i) within 120 days following each Fund's fiscal year end.

All statements and reports referenced above are in writing, although all Clients and/or Fund investors may also be provided with supplementary verbal reports.

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

### *A. Economic Benefit from Non-Clients for Services to Clients*

Proprietary Capital has no arrangements whereby a party who is not a Client is compensated or otherwise provides an economic benefit to the Firm for providing investment advice to Clients.

### *B. Compensation to Non-Supervised Persons for Client Referrals*

Pursuant to written agreements, Proprietary Capital compensates certain third parties for referral of investors to its Hedge Funds. Such third parties generally receive a portion of the

Management Fee attributable to the assets invested in a Hedge Fund by referred investors, as well as a portion of an incentive fee, if any. The Firm may also have written “fixed fee” referral arrangements pursuant to which the Firm pays non-supervised persons a fixed, monthly fee for referring to the Firm potential investors.

## **Item 15 Custody**

Proprietary Capital does not serve as the qualified custodian of assets of the Funds and does not maintain physical custody of Fund assets. Proprietary Capital is deemed by applicable regulatory rules to have constructive custody of the assets of the Funds. It satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that the Funds are subject to an annual audit by an independent, Public Company Accounting Oversight Board (PCAOB)–registered and examined accounting firm, and that such audited financial statements are provided to investors within 120 days of a Fund’s fiscal year end.

Proprietary Capital does not have custody of Separately Managed Account assets, which are held by qualified custodians.

## **Item 16 Investment Discretion**

The Firm manages Client assets on a discretionary basis. This means that the Firm has the authority to buy and sell securities for Clients without first obtaining Client approval for each transaction.

Any investment discretion exercised is subject to an IMA a Fund’s Governing Documents, including any applicable investment guidelines. Separately Managed Accounts may amend or change such limitations by providing the Firm with written instructions.

## **Item 17 Voting Client Securities**

Proprietary Capital has implicit authority to vote Client securities by virtue of its discretionary authority and may, under certain circumstances, need to exercise voting authority for its Clients. Therefore, as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, the Firm has adopted proxy voting policies pursuant to which it will vote proxies prudently and solely in the best long-term economic interest of the Clients, considering all relevant factors and without undue influence from third-parties who may have an economic interest in the outcome of a proxy vote.

Proprietary Capital will make its best efforts to avoid conflicts of interest in the voting of proxies. Where conflicts of interest arise, Proprietary Capital is committed to resolving the conflict in the Clients’ best interests. In situations in which the Firm perceives a material conflict of interest, the Firm may disclose the conflict to the relevant Client(s) and obtain their consent before voting; defer to the voting recommendation of the relevant Client(s) or an independent third party provider of proxy services; send the proxy directly to the relevant Client(s) for a voting decision; vote the proxy based on the voting guidelines set forth in the proxy voting policies if the application of the guidelines to the matter presented involves little discretion on the Firm’s part; or take such other action in good faith that would protect the interest of Client(s).

Clients of Proprietary Capital may obtain a copy of the proxy voting policies or a record of the Firm's proxy votes free of charge by calling (303) 575-9084 or by writing Proprietary Capital at 1800 Larimer Street, Suite 1825, Denver, Colorado 80202.

## **Item 18 Financial Information**

Under no circumstances does the Firm require or solicit payment of fees in excess of \$1,200 per Client more than six months in advance of services rendered. Therefore, the Firm is not required to include a financial statement herewith.

As an advisory firm that maintains discretionary authority for client accounts, Proprietary Capital is also required to disclose any financial condition that is reasonable likely to impair its ability to meet its contractual obligations. Proprietary Capital has no such financial condition to report.

Proprietary Capital has not been the subject of a bankruptcy petition at any time during the past ten years.