



# **Teza Capital Management LLC**

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

March 28, 2024

### **ITEM 1. COVER PAGE**

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This brochure provides information about the qualifications and business practices of Teza Capital Management LLC (“Teza Capital”). If you have any questions about the contents of this brochure, please contact Teza Capital at (312) 768-1600 or [compliance@teza.com](mailto:compliance@teza.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.

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

Teza Capital is registered with the SEC as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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## **ITEM 2. MATERIAL CHANGES**

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This section is intended to describe only specific material changes made to this brochure since the last annual update as of March 30, 2023. Since that update, Item 4 was updated to reflect that Teza Capital no longer serves as an adviser to a registered investment company and Item 8 was updated to reflect the current material, significant and/or unusual risks relating to Teza Capital's investment strategies.

### **ITEM 3. TABLE OF CONTENTS**

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Item 1. Cover Page.....	1
Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	5
Item 6. Performance-Based Fees and Side-by-Side Management .....	6
Item 7. Types of Clients.....	7
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9. Disciplinary Information .....	29
Item 10. Other Financial Industry Activities and Affiliations .....	30
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	31
Item 12. Brokerage Practices .....	33
Item 13. Review of Accounts.....	38
Item 14. Client Referrals and Other Compensation.....	39
Item 15. Custody.....	40
Item 16. Investment Discretion.....	41
Item 17. Voting Client Securities.....	42
Item 18. Financial Information .....	43

## **ITEM 4. ADVISORY BUSINESS**

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Teza Capital was formed in March 2014 and commenced investment adviser operations in or about October 2014. Teza Services LLC (“Teza Services”) is the sole owner of Teza Capital.

Teza Capital provides investment advisory services on a discretionary basis to its clients, which include private funds organized as domestic or foreign private pooled investment vehicles (the “Funds” or the “Clients”). Teza Capital serves as subadvisor in respect of certain Clients and, in such instances, manages one or more accounts on behalf of Clients.

Teza Capital uses a scientific and process-oriented approach to analyzing market information and risk metrics. At a high level, the scientific method involves the iterative loop of theory, experiment and analysis. More specifically, as implemented on behalf of Teza Capital, the scientific and process-oriented approach used to develop strategies may include the testing and back-testing of hypotheses about relevant market factors, signals and statistical techniques, proposed models, algorithms and risk management methodologies, and proposed execution protocols, among other factors. The strategies and models ultimately derived from this process-oriented and test-driven approach are expected to trade based on the price of the underlying instruments as well as on other fundamental (non-price) and proprietary quantitative signals. Please see Item 8 for a more detailed description of Teza Capital’s investment strategies.

Teza Capital manages the Clients in accordance with the investment objectives, strategies, restrictions, and guidelines set forth in their respective confidential offering documents, prospectuses, investment management agreements and/or sub-advisory agreements, as applicable (the “Governing Documents”), and Teza Capital does not tailor investment decisions to any particular investor therein (each, a “Client Investor”). All descriptions of the Clients in this document, including but not limited to their investments, objectives, investment strategies, fees and other costs, conflicts of interest and relevant material risks, are qualified in their entirety by reference to the relevant Governing Documents for each such Client. This brochure does not constitute an offer of advisory services or an offer to sell or the solicitation of an offer to purchase any securities issued by any entity described herein.

As of December 31, 2023, Teza Capital had approximately \$754,371,805 in regulatory assets under management. All assets are managed on a discretionary basis.

## ITEM 5. FEES AND COMPENSATION

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Teza Capital and its affiliates receive compensation from certain Clients comprised of a fee based on a percentage of assets under management and performance-based compensation in the form of an incentive allocation, subject to a loss carryforward, to Teza Capital or an affiliate. The management fee is generally paid monthly in arrears. The incentive allocation is based on realized and unrealized gains and is allocated monthly or annually, or in certain cases upon a Client Investor's withdrawal of capital from the applicable Fund. With respect to "feeder funds," the management fee and incentive allocation are deducted directly from each "master fund." Teza Capital, in its sole discretion, may reduce, waive or calculate differently the management fee or incentive allocation with respect to one or more Client Investors in certain Funds (including Teza Capital's principals, affiliates and employees).

Teza Capital's fee schedule is omitted because this brochure is only being delivered to qualified purchasers, as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the rules thereunder.

*Other Fees and Expenses:* In addition to the asset-based and performance-based compensation described above, each Client typically bears all costs directly related to its trading and operations, including, without limitation, brokerage commissions, custodial charges, expenses related to short sales, clearing and settlement charges, spreads, interest expenses, borrowing charges, short dividends and other investment expenses, dividend withholding, markups and markdowns, transfer duties and costs, trade processing and reconciliation expenses and costs, expenses and fees related to any exchange memberships used by the Client, including any legal or other third party fees incurred in obtaining or maintaining such memberships. For certain Funds, these costs also include, without limitation, data feeds, software and databases, the costs of computer terminals, services and other data processing costs and expenses, telecommunications and other networking equipment and services, data charges and other services and equipment used primarily for investment monitoring, research and investment reports, studies and analyses prepared by third parties and conference and meeting costs, including travel, relating to specific companies, industries, markets, strategies or general economic or political matters, and insurance premiums obtained by Teza Capital in respect of its management of the Fund. The Funds reimburse Teza Capital or an affiliate for certain of the foregoing expenses borne directly by Teza Capital and its affiliates related to the Funds' respective trading and operations.

The Clients will incur brokerage and other transaction costs. Please see Item 12 for a more detailed description of Teza Capital's brokerage practices.

Teza Capital and its affiliates bear all of their general overhead expenses, including the rent of their offices, compensation and benefits of their administrative staff, maintenance of their books and records, and their fixed expenses, telephones and general purpose office equipment.

***Current and prospective Client Investors should refer to the applicable Governing Documents, including the offering memorandum, prospectus, investment management agreement and/or sub-advisory agreement, as applicable, for a more comprehensive description of relevant fees, compensation and expenses.***

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

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Teza Capital and its affiliates receive performance-based compensation in the form of an incentive allocation equal to a percentage of each Fund's net profits (including both realized and unrealized gains and losses), subject to a loss carryforward. With respect to Client Investors in certain Funds, this is determined based on each such Client Investor's capital account or series of shares, as applicable, and paid at the "master fund" level. With respect to certain other Funds, this is determined based on the Fund's overall account(s) managed by Teza Capital.

The ability of Teza Capital and its affiliates to earn performance-based compensation aligns the interests of Teza Capital and each Fund in certain ways, but the arrangement also poses a potential conflict of interest in that Teza Capital may have an incentive to invest each Fund's capital more speculatively than it would in the absence of such performance-based compensation in an effort to generate outsized returns. However, this incentive may be tempered somewhat by the fact that losses will reduce the Fund's performance and thus the fees earned. In addition, certain Funds are subject to different performance-based compensation structures, and Teza Capital, therefore, has an incentive to favor certain Funds over others.

Additionally, Teza Capital trades proprietary accounts side-by-side with the Clients and, due to its proprietary investments, Teza Capital has an incentive to favor its proprietary accounts over the Funds. Please see Item 10, Item 11 and Item 12, respectively, regarding (i) the nature of the proprietary accounts, (ii) the related conflicts of interest, and (iii) Teza Capital's allocation policies and procedures intended to mitigate these conflicts.

## **ITEM 7. TYPES OF CLIENTS**

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Teza Capital's only clients are the Clients. In order to invest in the Funds, prospective Client Investors must satisfy certain eligibility, suitability and minimum investment requirements, which are described in more detail in the relevant Governing Documents.

Teza Capital may in the future provide investment advice to different types of clients, including additional private funds, separately managed accounts and/or investment companies, with different objectives, different offering terms, higher or lower fees and/or different structures from those of the Clients. Teza Capital also serves as investment adviser to certain proprietary accounts of Teza affiliates.

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

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*Methods of Analysis and Investment Strategies.* Teza Capital implements quantitative, systematic, and/or algorithmic trading strategies on behalf of the Clients. These strategies trade primarily in the futures and equities markets in the United States and Europe, though certain Clients may trade other assets and/or in other markets. Teza Capital may employ additional strategies in the future on behalf of certain Clients, subject to the terms of the applicable Governing Documents. Subject to the applicable Governing Documents, the balance of strategies and scale will vary at Teza Capital's discretion and in accordance with the applicable Governing Documents, but such balance is generally determined based on the scientific and financial approaches summarized herein.

There can be no assurance that any Client's objective will be achieved, that market exposure will be limited or that substantial losses will not be incurred.

*Material, Significant or Unusual Risks Relating to Investment Strategies:* ***The following description of certain risk factors does not purport to be an exhaustive list or a complete explanation of all of the risks involved in an investment with Teza Capital. The order in which the risk factors are described, and the length of each description do not indicate a priority or relative importance among the various risk factors. Clients and prospective Clients should refer to the applicable Governing Documents for a more comprehensive description of the various risks applicable to each Client. Investing in securities involves risk of loss that Clients should be prepared to bear. All of the investment strategies employed by Teza Capital involve the risk of loss that Clients should be prepared to bear. There is high risk associated with an investment in a Client, and any such investment should only be made after consultation with independent qualified sources of investment and tax advice.***

### **General Investment and Business Risks**

*Potential Loss of Investment.* An investment in the Clients involves a high degree of risk. The Clients cannot assure any Client Investor that the investment objective of a given Client will be achieved or that such Client Investor will not lose all of such Client Investor's investment in the given Client. Alternative investment strategies—such as Teza Capital's strategies—are subject to a “risk of ruin” to which traditional, unleveraged, long-only strategies are not. The use of leverage not only increases the risk of loss but also makes a strategy dependent on the willingness of brokers and dealers to continue to extend credit. From time to time in the past, alternative investment strategies which had been consistently profitable for a matter of years have incurred sudden and total losses in a matter of days.

*Highly Volatile Markets.* The prices of numerous instruments traded by the Clients have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors.

Although volatility can create profit opportunities for the Clients, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing Teza Capital's models to cease to function properly, which may result in losses.



The financial markets have experienced increased volatility in recent years, which may recur in the future. On the other hand, in the past markets have experienced periods of unusually low volatility, causing many arbitrage and similar strategies (which focus on profiting from the mis-pricings created in part by market volatility) to incur major losses. Given Teza Capital's algorithmic strategies, both high and low volatility markets present risks to the profitability of the Clients.

*Inflation Risk.* In 2022 and 2023, in light of increasing inflation, the U.S. Federal Reserve (the "Fed") increased interest rates multiple times. Although interest rates have come down slightly in the latter half of 2023, inflation is still a concern and the Fed could raise interest rates again because of the current robust economy, which could create downward pressure on the value of certain investments made by the Firm. Further, the Firm may face difficulty in realizing value from investments due to sustained declines in equity market values as a result of concerns regarding interest rates. Inflation and rapid fluctuations in inflation rates have in the past had, and may in the future have, negative effects on economies and financial markets. In an attempt to stabilize inflation, governments have imposed wage and price controls and will likely continue to intervene in the economy. Governmental efforts to curb inflation often have negative effects on the level of economic activity. If inflation were to decrease at rates slower than those anticipated in underwriting investments, the effective rate of return on such investments may be reduced and as a result, could have a material and adverse impact on Teza Capital and its investments.

*Financial Institutions Risk.* Teza Capital relies upon third-party banks or other custodians to hold and safeguard our Client's assets. While Teza Capital carefully selects and monitors its custodians, there is no guarantee that such custodians will not experience financial difficulties or otherwise fail, which could prevent the Firm from accessing Client funds, securities, or credit facilities. These events could negatively impact Firm performance or result in substantial delays in the return of capital to investors.

Events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or the financial services industry generally, or concerns or rumors about any events of these kinds, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. Despite subsequent actions taken by the U.S. Department of the Treasury, the U.S. Federal Reserve and the FDIC to ensure that all depositors of SVB had access to all of their cash deposits following the closure of SVB, uncertainty and liquidity concerns in the broader financial services industry remain.

Teza Capital regularly maintains cash balances at banks or other custodians in excess of the FDIC insurance limit. Each of these parties' access to cash in amounts adequate to pay expenses, purchase new investments and otherwise operate its business could be significantly impaired by the financial institutions with which it maintains cash balances to the extent such financial institutions face liquidity constraints or failures. In addition, investor concerns regarding the U.S. or international financial systems may increase the risk of default in particular investments, negatively impact market value, increase market volatility and cause credit spreads to widen and

reduce liquidity, all of which could have a material adverse effect on the performance of the Firm's investments, returns and the ability of the Firm to make and/or dispose of investments. No assurance can be given as to the effect of these events on the value of, or markets for, investments, or the Firm's ability to recover therefrom. In addition, while it is not always possible to predict the extent of the impact that the failure of any financial institution or the high market volatility and instability of the banking sector could have on economic activity and Teza Capital in particular, the failure of other banks and financial institutions and the measures taken by governments, businesses and other organizations in response to these events could adversely impact the Firm and its investments.

### **Trading Strategy Risks**

*Market Microstructure and Market Impact Strategies and Signals.* Certain Teza Capital strategies are designed to detect and trade on opportunities presented during the origination, continuation and relaxation of market impact (*i.e.*, the influence that other market participants' orders exert on asset price). Although trading signals based upon market microstructure models may constitute the primary category of trading signals underlying certain Clients' investment strategies, there can be no assurance that such strategies or signals will be successful. Even if Teza Capital's market microstructure-based and market impact-based strategies and signals are successful, other categories of strategies and signals may outweigh them and offset any profits.

*Other Trading Strategies and Signals.* Teza Capital employs a number of other types of strategies and signals on behalf of its Clients, some of which are further described herein (please refer to the applicable Governing Documents for further information on the strategies and signals implemented by Teza Capital). Teza Capital may utilize Statistical Arbitrage strategies on behalf of certain Clients, and the success of these strategies depends on the market values of various financial instruments moving toward their theoretical values as predicted by statistical modeling. Global macro strategies and signals generally utilize analysis of macroeconomic and financial conditions to develop views on country, regional or broader economic themes. Teza Capital may pursue certain relative value strategies on behalf of Clients, taking highly leveraged long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. Fundamental strategies are based on the theory that market mis-pricings exist because market prices do not accurately incorporate all knowable economic and other relevant data.

*General Trading Risks.* Due to competition in the market, Clients may have to pay more to obtain a position or may receive a lower price when a strategy liquidates a position. In the event of market disruptions generally or specific events that cause deviations from historical relationships between certain financial instruments and other instruments or data points used to predict value, significant losses could be incurred. While the Models (as defined below) are used to build a given Client's portfolio, it is possible that other hedge funds' own distinct, proprietary models will generate very similar portfolios, so that buying and selling by the Clients will coincide with buying and selling activities by such other funds. This circumstance could produce exaggerated movements in the prices of the stocks in the portfolio that were not anticipated by the Models, resulting in losses to the Clients. Furthermore, in certain market conditions, Teza Capital may have a significantly reduced likelihood of being able to capitalize on price movements. For example, in "whipsaw" markets in which price trends appear to develop, but then frequently reverse, a number of strategies are likely to be unprofitable.

In the event the perceived valuations underlying the Clients' trading positions were to fail to converge toward, or were to diverge further from, Teza Capital's expectations, the Clients could incur substantial losses. Market disruptions and uncertainty can also cause substantial losses if certain positions are forced to be prematurely terminated due to severe price changes. Due to the leverage that may be required to generate a profit potential generally consistent with the Clients' investment objectives, the Clients may be subject in any trading to the risk of "credit squeezes" (for a further description of risks associated with leverage across Teza Capital's strategies, see – "Credit and Capital Risks - Leverage").

Trading strategies are also subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. For example, investments made based upon fundamental analysis are subject to significant losses when market sentiment leads to investment instruments' market prices being materially discounted from the expected prices indicated by fundamental analysis (as in the case of "flights to quality" when the demand for certain risky investment instruments plummets) or when technical factors, such as price momentum encouraged by trend following, dominate the market.

*FX Risks.* Teza Capital may invest in currencies and foreign exchange on the Clients' behalf. Such transactions involve a significant degree of risk and the markets in which foreign exchange transactions are effected are volatile, specialized and technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment or particular transactions in foreign currency. See "—Product and Instrument-Specific Risks—Non-U.S. Securities and Currencies."

*Hybrid Strategies; No Limitations on Strategies.* Teza Capital's approach may combine a range of different trading techniques, implementing different strategies in different markets as well as combining different strategies, in the same or related markets. Notwithstanding the descriptions of certain strategies included herein, there are no limitations on the investment strategies which Teza Capital may use when investing assets on behalf of the Clients, subject to the relevant Client's Governing Documents; however, Teza Capital presently employs systematic, quantitative, algorithmic trading strategies on behalf of the Clients. Teza Capital will opportunistically implement whatever strategies or discretionary approaches Teza Capital believes from time to time may be best suited to prevailing market conditions. Over time, the strategies implemented on behalf of the Clients can be expected to expand, evolve and change, perhaps materially. Subject to the relevant Client's Governing Documents, Teza Capital will not be required to implement any particular strategies and may discontinue employing any particular strategy on behalf of the Clients, whether or not such strategies are specifically described herein or in the applicable Governing Documents. Teza Capital may employ certain strategies that are not fully systematic and such strategies may involve more investment discretion than typical "black box" strategies. There can be no assurance that the various investment strategies which Teza Capital expects from time to time to develop and implement for the Clients will be successful or that strategies that have been successful will continue to be profitable.

*Changes in Trading Method.* Teza Capital may modify its trading method without approval by or notice to Client Investors. Modifications may include changes in or substitution of technical

trading systems, risk control models, money management principles and markets traded and introduction of non-technical factors and methods of analysis and additional non-traditional technical systems and methods of analysis. The trading systems to be utilized by Teza Capital are proprietary and confidential.

*Evolving Strategies; New Strategies.* Teza Capital intends to develop new investment strategies and, subject to the applicable Governing Documents, implement them on behalf of the Clients. Teza Capital may allocate Client capital to develop and incubate new strategies, even if Teza Capital has limited experience in such strategies. Teza Capital may also allocate its proprietary capital, or that of an affiliate, to develop and incubate such strategies. Following such development and incubation, Teza Capital may determine that such strategies are appropriate for other accounts, including proprietary accounts. There can be no assurance that Teza Capital will be successful in implementing the strategies which it may from time to time develop and implement for a Client, or that the Client will not suffer losses during the development or incubation stage of a strategy. Certain of the risks described herein, including “Risks Related to Model Development” and “Risks Related to Model Outputs,” will be exacerbated during a strategy’s incubation. Further, other Clients may later participate—together with such Client or exclusively—in such newly developed strategies without having borne the risks associated with their development and incubation.

*Model Risk.* Many of Teza Capital’s strategies are highly dependent on quantitatively-informed pricing theories and valuation models that generally have not been independently tested or otherwise reviewed (“Models”), which Teza Capital uses to evaluate trading opportunities.

*Risks Related to Model Development.* Teza Capital’s Models employ assumptions that abstract a limited number of variables from complex financial markets, instruments or other information sources which they attempt to replicate. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. For example, Models may postulate, or their efficacy may depend upon, assumptions regarding the existence of relationships that appear to hold true or in fact held true in the past but that may not exist or hold true in the future. Teza Capital may emphasize the importance of certain variables in its Models which ultimately are unimportant in predicting future market behavior, or may neglect to incorporate other variables which are determinative. The risk that Teza Capital may incorrectly analyze and interpret these complex systems in creating its Models arises both from human error (e.g., the designers of the Models using incorrect variables or assigning incorrect importance to the correct variables) as well as systems error (e.g., the computers and other hardware used to create the Models may incorrectly interpret data). These risks persist even after the Models are implemented—for example, a portfolio manager may assign incorrect input sensitivity to the variables or the computers running the Models may be unable to analyze large amounts of data in real time and therefore may miss trading opportunities. These risks are compounded by the iterative nature of the Models.

*Risks Related to Model Inputs.* Inputs into various Models may be composed of or derived from data, the accuracy of which have not been independently verified by Teza Capital or any third party. In particular, certain Models rely upon non-market structured data and/or alternative data, for which manual review and/or other quality control procedures may be necessary. There can be no assurance, however, that such procedures will be successfully implemented, or that any flaws

in such data will be identified and corrected. If material factors are not incorporated into Models, or are incorporated inaccurately, substantial losses could result.

Inputs to the Models may be incorrect due to exogenous market factors (e.g., unexpected terrorist events) or the actions of other market participants. For example, other traders may take actions designed to manipulate market data or trading patterns. This “gaming” of the market may cause errors in Teza Capital’s Models or may cause them to lose money. See “Technical Analysis and Trading Systems,” below. The risk of incorrect inputs is present not only when a properly designed Model is presented with incorrect inputs, but also when a Model is designed using incorrect inputs, in which case it will not function correctly when later presented with correct, unmanipulated inputs.

*Risks Related to Model Outputs.* The outputs of Models may differ substantially from the reality of the markets, resulting in major losses. This may occur due to a variety of reasons, including incorrect design of the Models, unexpected or unnatural market behavior, “gaming” by other market participants or failure of Teza Capital’s computer systems. Additionally, there is no assurance that Teza Capital has appropriately incorporated the Models into its strategies. Teza Capital anticipates the continued modification, enhancement and development of Models. Each new generation of Models (including incremental improvements to current Models) exposes the Clients to the possibility of unforeseen losses from a variety of factors, including conceptual and implementation failures.

*Alternative Data Collection and Use.* Certain of Teza Capital’s trading models rely on “alternative data” from non-traditional sources. Such alternative data may include, for example, social media data, consumer financial transaction data, web traffic, supply chain analysis, search trends, digital footprint data, satellite imagery or weather data. Teza relies on various third-party data providers, though it may also collect and process certain alternative data itself in the future. The risks associated with traditional market data generally apply to alternative data, and the use of alternative data exacerbates certain of those risks (including those related to quality control and data integrity). In addition, the applicability of existing laws and regulations to the collection and use of alternative data is uncertain, and new regulations may be adopted in the future. These risks and uncertainties may have an adverse effect on Teza Capital’s ability to implement its strategies successfully.

*Technical Analysis and Trading Systems.* Teza Capital employs technical analysis and/or technical trading systems. Technical strategies rely on information intrinsic to the market itself to determine trades, such as prices, price patterns, momentum, volume and volatility. As discussed above, these strategies can incur major losses when factors exogenous to the markets themselves, including political events, natural catastrophes, acts of war or terrorism, dominate the markets. Teza Capital’s Models and trading strategies are particularly sensitive to exogenous market factors. If Teza Capital concludes that unexpected factors may be affecting the markets or that another market participant is “gaming” the market or attempting to create unusual or unnatural market patterns, Teza Capital may stop trading of the related Models, implement hedges or take other steps to adjust the Client’s trading, potentially causing the Clients to miss profit opportunities or even lose money. See “Discretionary Aspects of Teza Capital’s Strategies,” below.

*Market Disruptions.* The Clients may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted.

In the case of the Clients, the risk of loss from pricing distortions is compounded by the fact that the Models are developed on certain assumptions, and it is impossible to predict all types of market disruptions that might occur. Even though Teza Capital applies “stress tests” in developing the Models, there is no guarantee that another type of market event not previously anticipated will not occur, or even that the Model will react as designed to an anticipated market event. Further, the financing available to the Clients from their banks, dealers and other counterparties is typically reduced in disrupted markets. Any market disruption or other extraordinary event could result in material or total losses to the Clients.

*Increased Use of Trend-Following and Counter-Trend Strategies.* Trading strategies that employ trend-following timing signals and strategies that employ counter-trend techniques have increased in use in recent years. With respect to trend-following strategies, while the precise effect of such increase cannot be determined, such increase could alter trading patterns or affect trade execution to the detriment of the Clients. As to counter-trend strategies, or other strategies that attempt to profit from the wide use of trend-following strategies by running stop points or otherwise, their effect is even harder to determine but such increase could also alter trading patterns to the detriment of the Clients.

*Lack of Market Liquidity.* The widespread use of technical trading systems frequently results in numerous managers’ attempting to execute similar trades at or about the same time, altering trading patterns and affecting market liquidity. Teza Capital’s Models are highly dependent on sufficient market liquidity, and in the event the Models are unable to execute all or a portion of the indicated trades the Clients may suffer losses.

*Quantitative Trading.* Teza Capital engages in quantitative trading. Quantitative trading strategies are highly complex, and, for their successful application, require relatively sophisticated mathematical calculations and relatively complex computer programs. Many quantitative trading programs anticipate that many of their trades may be unprofitable, seeking to achieve overall profitability through recognizing major profits on a limited number of positions while cutting losing positions quickly. These trading strategies are dependent upon various computer and telecommunications technologies and upon adequate liquidity in the markets traded. The successful execution of these strategies could be severely compromised by, among other things, a diminution in the liquidity of the markets traded, telecommunications failures, power loss and software-related “system crashes.” There are also periods when even an otherwise highly successful system incurs major losses due to external factors dominating the market, such as natural catastrophes and political interventions. Transaction costs incurred by quantitative trading strategies may be significant. In addition, the difference between the expected price of a trade and the price at which a trade is executed, or “slippage,” may be significant and may result in losses.

Due to the nature of their trading, quantitative trading firms may suffer devastating losses in a very short period of time. For example, in August 2012 Knight Capital accidentally deployed test software code to a production environment, causing a major disruption in the stock prices of over 100 listed companies which in turn resulted in the collapse of Knight Capital’s stock price. A similar trading software mistake by Teza Capital could result in material or even total losses to a Client.

*Discretionary Aspects of Teza Capital's Strategies.* Although Teza Capital generally applies highly systematic strategies and research methodologies, it may employ certain strategies that are not fully systematic in the future and, in any case, even its systematic strategies retain certain discretionary aspects. In particular, Teza Capital personnel discretion is used throughout the research, creation and implementation of the Models, for example in interpreting data, choosing signals and ranking their importance. See “*Risks Related to Model Development*,” above. In addition, decisions to adjust the sensitivity of a Model to certain inputs, adjust target volatility or risk exposure, implement hedges, adjust the size of positions indicated by the systematic strategies, which equities, options, futures and forward contracts to trade and method of order entry, will require certain judgmental input from Teza Capital personnel. Although the Models are, in large part, wholly-systematic once they are operational, discretionary decision-making by Teza Capital during their research, creation and implementation may ultimately result in the Models making unprofitable trades.

Teza Capital's Models may be turned “on or off,” meaning that Teza Capital may elect not to trade (or may hedge existing trades) when it believes exogenous market factors, rather than intrinsic market factors, are determining trading patterns and prices. In addition, Teza Capital may cause the Clients not to trade even on days when the relevant markets are open in the event it determines it cannot accurately assess prices. This decision not to trade may potentially cause the Clients to miss profit opportunities or even lose money.

*Failure of Algorithms.* Teza Capital will utilize sophisticated computerized models to automatically determine and execute trade entry and exit conditions and manage risk. Teza Capital makes efforts to test management and software releases to ensure that these algorithms operate correctly. However, it is possible that a defect in algorithm design or implementation or risk management could unexpectedly manifest and cause sustained long-term or virtually instantaneous catastrophic losses for the Clients. See “*Model Risk*,” above.

*Risk Management Systems.* Teza Capital's risk management techniques and strategies may not fully mitigate the Clients' risk exposure in all economic or market environments, or against all types of risk, including risks that Teza Capital might fail to identify or anticipate. Any failures in Teza Capital's risk management techniques and strategies to accurately quantify such risk exposure could limit Teza Capital's ability to manage risks in the Clients or to seek positive, risk-adjusted returns. In addition, any risk management failures could cause the Clients losses to be significantly greater than the historical measures predict.

*Reliance on Corporate Management and Financial Reporting.* Equity markets rely on the financial information made available by the issuers in which the Clients invest. Although not as integral to Teza Capital's trading strategies as determining the correct inputs to Models (see “*Model Risk*,” above), Teza Capital may have no ability to independently verify the financial information disseminated by the issuers in which the Clients invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Clients can incur as a result of corporate mismanagement, fraud and accounting irregularities.

*Diversification.* Subject to the Governing Documents, there are no absolute diversification or concentration constraints on the Clients. If the Clients' portfolio becomes relatively concentrated,

the value of an investment in the Clients may be subject to greater volatility and may be more susceptible to any single economic, political or regulatory occurrence or the fortunes of a single company or industry than would be the case if the Clients' investments were more diversified. On the other hand, a given Client's portfolio may be diversified across a vast number of issuers and industries, in which case profits may be diluted.

*Turnover.* The Clients are not restricted in effecting transactions by any limitation with regard to portfolio turnover rate. In light of the Clients' investment objectives and policies, the Clients' portfolio turnover rate may be substantial, resulting in significant brokerage commissions and fees.

*Other Trading Strategies.* The Clients may employ strategies for which no specific "risk factors" are provided. Nevertheless, such strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described herein.

*Broad Discretion of Teza Capital; Potential Lack of Diversification.* There are no restrictions on the investment discretion of Teza Capital other than as set forth above or in the applicable Governing Documents. Accordingly, the Clients are not necessarily restricted from investing a large portion of their assets in any one sector or investment.

### **Credit and Capital Risks**

*Operating Below Required Minimum Capitalization.* Teza Capital may require a minimum level of capital to fully implement a Client's investment strategies. Should a Client's net asset value fall below this minimum level, Teza Capital's full investment strategy and all trading strategies thereon may not be fully implemented. As a result, a Client may not be able to generate profits and may experience substantial losses because of its inability to implement the full trading strategy. In addition, the allocation of expenses over a smaller capital base would make such Client's continued operations less cost-effective.

*Leverage.* The Teza Capital generally uses substantial leverage in implementing its investment strategies. The Clients may, in the sole discretion of Teza Capital, leverage their investment positions by borrowing funds from securities broker-dealers, banks or others, including pursuant to repurchase arrangements and/or deferred purchase agreements. Leverage may also take the form of, without limitation, any of the securities described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, swaps and forwards. While leverage potentially creates the opportunity to participate in greater returns or achieve more diversification associated with greater exposure, it also creates exposure to potential increased losses. Leverage increases both the possibilities for profit and the risk of loss, and the volatility of an investment in the Clients may be significantly greater than would otherwise be the case without leverage. Any event which adversely affects the value of an investment by a Client would be magnified to the extent that such Client is leveraged. Borrowings will typically be secured by the securities and other assets held by the applicable Client. Under certain circumstances, a lender may demand an increase in the collateral that secures a Client's obligations and if such Client were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the Client's obligations. Liquidation in that manner could have extremely adverse consequences. Further, termination of any leverage facility entered



into by a Client by the facility provider may adversely affect such Client's ability to meet its investment objective.

The leverage used by the Clients will be subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results. Interest rates will typically be affected by economic factors including, without limitation, inflation, lending rates established by central banks or similar governmental agencies, availability of credit, liquidity in the markets, and the pace of economic growth. The amount of the Clients' borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on the Clients' profitability.

In general, the Clients' use of short-term margin borrowings may result in certain additional risks. For example, should the securities pledged to brokers to secure a portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call," pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off its margin debt.

*Target Volatility and Fluctuating Leverage.* Teza Capital expects to adjust Clients' target volatility from time to time, and it may vary materially from previous parameters, subject to the Governing Documents. Adjustments to each Client's target volatility will correspondingly result in changes to such Client's aggregate leverage. There can be no assurance that a Client's target volatility will result in the realized volatility intended for such Client. Further, there be periods of time in which the actual leverage for a Client does not match the intended leverage ratio set by Teza Capital, as each Client's trading level will fluctuate as profits or losses have been generated by the Client.

*Possibility of Increased Margin Calls.* The assets of a Client are generally traded at a trading level that is substantially greater than the Client's gross asset value. This difference in trading level as compared to actual assets substantially increases the leverage inherent in the positions taken by such Client, positions that are already highly leveraged because of the high degree of leverage available for futures contracts and other contracts in which such Client will trade. As a result, the clearing brokers can be expected to initiate a call for additional margin much sooner than if the Client were trading at lower leverage.

*Financing Arrangements; Availability of Credit.* The use of leverage is integral to many of the Clients' strategies, and the Clients depend on the availability of credit to finance their portfolios. As a general matter, the dealers that provide financing to the Clients can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by dealers in such financing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Clients to liquidate all or part of their portfolios at disadvantageous prices.

In 2008-2009, banks and dealers substantially curtailed financing activities and increased collateral requirements, forcing many investors to liquidate positions. Such “credit squeezes” can be expected to recur. There can be no assurance that any Client will be able to obtain adequate financing to pursue its investment program and achieve its objectives.

### **Trading Technology Risks**

*Possible Effects of Technical Trading Systems.* There has been, in recent years, a substantial increase in interest in technical trading systems similar to Teza Capital’s systems. As the capital under the management of such trading systems based on the same general principles increases, an increasing number of traders may attempt to initiate or liquidate substantial positions at or about the same time as the Clients, or otherwise alter historical trading patterns or affect the execution of trades, to the significant detriment of the Clients.

*Reliance on Technology and Electronic Trading.* Teza Capital relies heavily on computer hardware and software, online services and other computer-related or electronic technology and equipment to facilitate the Clients’ investment activities. Specifically, the Clients may trade financial instruments through electronic trading or order routing systems, which differ from traditional open outcry pit trading and manual order routing methods. Such electronic trading exposes the Clients to risks associated with system or component failure, which could render Teza Capital unable to enter new orders, execute existing orders or modify or cancel previously entered orders. System or component failure may also result in loss of orders or order priority. Should events beyond Teza Capital’s control cause a disruption in the operation of any technology or equipment, the Clients’ investment program may be severely impaired, causing them to experience substantial losses or other adverse effects.

*Cybersecurity Risk.* Teza Capital, the Clients and their service providers, counterparties and electronic communication networks are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. Teza Capital’s hardware and software systems are subject to threats from hackers and others, such as a malicious attack, malware or other event that leads to unanticipated interruption or malfunction of such systems. Any interruption of Teza Capital’s hardware or software functionality could lead to material or even complete losses to the Clients. Hackers could also theoretically access and steal Teza Capital’s research, Models, trading programs or other software or data and implement such programs or software on their own behalf. This could lead to increased competition for, or elimination of, the investment opportunities sought by the Clients or otherwise render the Models obsolete, possibly resulting in material or complete losses to the Clients. The Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose Teza Capital and the Clients to civil liability as well as regulatory inquiry and/or action. In addition, Client Investors could be exposed to additional losses as a result of unauthorized use of their personal information. While Teza Capital and its affiliates have

established policies, business continuity plans and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified or that such measures may become outdated, incomplete or ineffective. In addition, such measures cannot adequately protect against potentially vulnerable or unexpectedly hostile employees, who may have extensive access to Teza Capital's technology infrastructure and may inappropriately convert information or property, with or without the awareness of the Clients or Teza Capital.

*Failure of Connectivity.* Teza Capital's Models may trade frequently and may depend on low latency to be profitable. As a result, the success of Teza Capital's Models depends on network connectivity to a much greater extent than most private fund managers. A material disruption or failure of Teza Capital's network connectivity, or even a delay in transmission speed, could result in substantial or total losses to the Clients.

*Co-Location.* Teza Capital intends to locate certain of its computer systems at or near exchanges (commonly known as "co-location") in order to reduce the time it takes to execute orders. In addition to the general risks applicable to hardware and software (see below), co-location adds certain additional risks. Among other risks, Teza Capital personnel may not be able to readily repair malfunctioning or failed hardware, Teza Capital is dependent on others to maintain the physical co-location space, including electrical and network connections, and such arrangements may be subject to regulation in the future.

*Computer Hardware and Software.* Many components of Teza Capital's critical computer hardware and software may have flaws, may not be redundant, may be leased rather than owned or may be provided in whole or in part by another party. Should these components fail or be inaccessible, there is no certainty that Teza Capital will be able to recover promptly and the Clients may suffer material or total losses as a result.

### **Product and Instrument-Specific Risks**

*Futures Contracts.* The Clients buy and sell futures contracts, including futures contracts on equity indices. Trading in futures involves significant risks, including volatility, high leverage, illiquidity and high transaction costs. The use of futures is a highly specialized activity which involves investment strategies and risks different from those associated with ordinary portfolio securities transactions, and there can be no guarantee that their use will increase the Clients' returns or not cause the Clients to sustain large losses. If Teza Capital applies a strategy at an inappropriate time or judges market conditions or trends incorrectly, futures strategies may lower the Clients' returns or cause substantial losses. A Client could also experience losses if the values of its futures positions were poorly correlated with its other positions, if applicable, or if such Client could not close out its positions because of an illiquid market. In addition, a Client could incur high transaction costs, including trading commissions, in connection with their futures transactions and these transactions could significantly increase a Client's investment turnover rate.

Futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical. As a result, a relatively small price movement in a futures contract may result in substantial losses. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested. Price movements of

futures contracts are influenced by numerous factors outside of the control or predictive ability of Teza Capital, including, among other things, changing supply and demand relationships, government trade programs and policies, and national and international political and economic events.

*Futures Trading Is Highly Leveraged.* The low initial margin deposits normally required in futures contract trading (typically between 2% and 15% of the value of the contract purchased or sold) permit an extremely high degree of leverage. Accordingly, a relatively small price movement may result in immediate and substantial losses to the Clients. Like other leveraged investments, any trade may result in losses in excess of the amount invested. Although the use of leverage can substantially improve the return on invested capital, its use also will increase any adverse impact to which the investment portfolios of the Clients may be subject.

*Futures and Forward Contract Trading Is Volatile.* Trading in the futures and forward markets, as well as spot currency markets, typically results in volatile performance. Several occasions in the recent past have witnessed sudden and major reversals in these markets, resulting in major losses for traders.

*Certain Special Considerations Related to Forward and Spot Trading.* The United States Commodity Futures Trading Commission (“CFTC”), National Futures Association (“NFA”), futures exchanges or banking authorities may not regulate or only regulate strictly limited aspects of the inter-bank currency markets and trading in these markets. Because a principal portion of the Clients’ currency forward and spot trading (if applicable) takes place in these markets, prospective investors must recognize that much of such activity takes place in lightly regulated markets rather than on futures exchanges or through “retail” foreign exchange markets that are subject to more rigorous regulation by the CFTC or other regulatory bodies, and the responsibility for performing under a particular transaction rests solely with the counterparties to such transaction, not with any exchange or clearinghouse. This results in the risk that a counterparty may not settle a transaction with the Client in accordance with its terms, because the counterparty is either unwilling or unable to do so (for example, because of a credit or liquidity problem affecting the counterparty), potentially resulting in significant loss. In addition, counterparties generally have the right to terminate trades under a number of circumstances including, for example, declines in the Clients’ net assets and certain “key person” events. Any premature termination of the Clients’ currency forward trades could result in material losses for the Client, as the Client may be unable to quickly re-establish those trades and may only be able to do so at disadvantageous prices. Client assets on deposit with the currency forward and spot counterparties with which a given Client trades are not protected by the same segregation requirements imposed on CFTC regulated commodity brokers in respect of customer funds deposited with them. Although the Clients deal only with major financial institutions as currency forward and spot counterparties, the insolvency or bankruptcy of a currency forward or spot counterparty could subject the Clients to the loss of their entire deposit with such counterparty. The forward and spot markets are well established. However, it is impossible to predict how, given certain unusual market scenarios, the evolving regulatory environment for these markets might affect the Clients, and the events underlying the bankruptcies of certain futures brokers have underscored, amongst other things, the risks of maintaining capital at unregulated entities.

*Effect of Speculative Position Limits.* The CFTC and U.S. futures exchanges (the “Exchanges”) impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contract traded on the Exchanges. The CFTC also recently adopted position limits on certain physical commodity swaps. Those position limits went into effect in 2023. The Clients could be required to liquidate futures or swap positions, or may not be able to implement fully their trading strategies, in order to comply with position limits. Any such liquidation or limited implementation could result in substantial costs to the Clients.

*Equities.* Certain Clients’ investment portfolios include equity and equity-related securities. Investments in equities involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. There are no absolute restrictions in regard to the size or operating experience of the companies in which the Clients may invest, subject to the applicable Governing Documents. Numerous economic factors, as well as market sentiment, political and market-related factors, among others, influence the value of equities. The Clients’ directional equity positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses. The Clients may take both long and short positions in equities and the Clients’ profit potential may be generally diminished during market cycles in which there is a sustained decline in equity price levels.

*Short Sales.* Certain Clients may make short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by the Clients. A short sale of a security is subject to materially greater restrictions than, for example, short sales of commodities or currencies. A short sale of a security is effected by selling a security that a Client does not own, or selling a security which a Client owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the applicable Client must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to re-deliver such asset to the lender. The applicable Client must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the given Client then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short-selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Client. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred by the Client. Furthermore, a Client may be forced to close out a short position prematurely if a counterparty from which such Client borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position. Under adverse market conditions, a Client might have difficulty purchasing securities to meet its short sale delivery obligations and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

*Risk of Short Squeeze.* From time to time, certain traders may attempt to profit by forcing short sellers to cover their short positions. These traders make large purchases of a security that has

been sold short with the objective of driving up the price of such security through their purchases in the expectation that short sellers will seek to limit their losses by buying such security in the open market for return to their lenders, thereby driving the price of such security even higher—*i.e.*, a “short squeeze.” For example, in January 2021, a short squeeze of the stock of the U.S. video game retailer GameStop and other securities took place, causing major financial consequences and substantial losses for short sellers, including a number of hedge funds and funds of hedge funds. The short squeeze was triggered by users of various social media sites with the apparent intent of driving up the price of GameStop and other securities for reasons unrelated to the underlying fundamentals of the issuers. There can be no assurance that other coordinated and targeted short squeezes such as those that occurred in January 2021 will not happen again in the future. To the extent the Clients hold any short positions, there is a risk that the Clients could be caught in such a targeted short squeeze, with the result that the Clients’ positions may not be able to be unwound without the Clients suffering substantial or even total losses.

*Swaps.* Certain Clients may enter into “swaps.” Swap agreements are over-the-counter (“OTC”) derivative products that may or may not be privately negotiated and may or may not be centrally cleared. In each case, swaps involve an agreement in which two parties agree to exchange actual or contingent payment streams that may be calculated in relation to a rate, index, instrument, or certain securities, and a particular “notional amount.” Swaps may be subject to various types of risks, including market risk, liquidity risk, structuring risk, tax risk, and the risk of non-performance by the counterparty, which includes risks relating to the financial soundness and creditworthiness of such counterparty. Non-cleared swaps can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swaps may increase or decrease the Clients’ exposure to commodity prices, equity or debt securities, long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, mortgage-backed securities, corporate borrowing rates, or other factors such as security prices, baskets of securities, or inflation rates and may increase or decrease the overall volatility of the Clients’ portfolios. Swaps can take many different forms, may be cleared on a clearinghouse or not cleared and are known by a variety of names. The Clients are not limited to any particular form of swap agreement if Teza Capital determines that other forms are consistent with the Clients’ respective investment objectives and policies. A significant factor in the performance of swaps is the change in individual commodity values, specific interest rates, security prices, currency values, or other factors that determine the amounts of payments due to and from the counterparties. If a swap calls for payments by a Client, the Client must have sufficient cash available to make such payments when due. In addition, to the extent a swap is not cleared through a central clearing counterparty and a counterparty’s creditworthiness declines, the risk of non-performance by the counterparty increases, potentially resulting in losses to the Client.

*Non-U.S. Securities and Currencies.* The Clients may invest certain of their assets in securities of non-U.S. issuers and securities denominated in non-U.S. currencies and related derivative and currency contracts, or other contracts, such as futures contracts. Non-U.S. investments pose a range of potential economic, political, and legal risks that may not exist in the United States. The economies of individual countries may differ with respect to growth of gross domestic product or gross national product, rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position. Each country has different standards of regulation with respect to matters such as government approval requirements, as well as insider trading rules, restrictions on market manipulation, shareholder proxy requirements, and timely disclosure of information.

Reporting, accounting and auditing standards of different countries vary, and little information may be available to investors in securities or other assets of such issuers. Other potential risks that could have an adverse effect on investments include (depending on the country involved) nationalization, expropriation, confiscatory taxation, negative diplomatic developments, and other governmental actions that make it difficult or impossible to liquidate assets and distribute proceeds. The laws of various countries governing business organizations, bankruptcy, and insolvency may make legal action difficult and provide little, if any, legal protection for investors. The securities markets in many foreign countries may be significantly less developed than the securities markets in the United States.

The U.S. Dollar value of portfolio securities of non-U.S. issuers fluctuates with changes in market and economic conditions outside the United States and with changes in relative currency values. In addition, the Clients are exposed to the risk of counterparty default on currency forward contracts.

*Exchange-Traded Funds.* The Clients may trade ETFs. ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. ETFs are designed to provide broader-based market exposure than investing in the securities of individual issuers and, as a result, have less potential materially to outperform the general market (as opposed to being generally representative of it). The price of an ETF can fluctuate within a wide range, and the Clients could lose money investing in an ETF if the prices of the securities or other assets owned by the ETF decrease. Further, an ETF may fail accurately to track the market segment or index that underlies its investment objective. ETFs are also subject to their own fees as well as the risk that they are selected and maintained by third parties over which Teza Capital will have no control. An investment in an ETF generally presents the same primary risks as an investment in a conventional mutual fund that has the same investment objective, strategies and policies. In addition, ETFs are subject to the following risks that do not apply to conventional mutual funds: (i) the market price of ETF shares may trade at a discount to its net asset value; (ii) an active trading market for ETF shares may not develop or be maintained; or (iii) trading of ETF shares may be halted if the listing exchange's officials deem such action appropriate.

*Options on Futures and Commodities.* A large number of options on futures contracts and physical commodities have been approved for trading on and off exchanges. Each such option is a right, purchased for a certain price, to either buy or sell the underlying futures contract or physical commodity during a certain period of time for a fixed price. Such trading involves risks substantially similar to those involved in trading futures and forward contracts in that options are speculative and highly leveraged. Specific market movements of the instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option, the strike price of the option and the price of the instrument underlying the option which the writer must purchase or deliver upon exercise of the option.

*Options.* Teza Capital may make use of listed options. Options trading is highly specialized and is subject to risks that are in addition to the risks generally associated with trading derivatives

instruments. If a Client purchases a put or a call option, it may lose the entire premium paid, and will profit only if it is able to liquidate or exercise the option for a return in excess of the premium paid and any transaction costs. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, further leveraging the option's inherent leverage and exposing the purchaser to liability for margin payments (not exceeding the amount of the premium). If a Client writes or sells a put or call option, its loss is potentially unlimited. The premium received by a Client as an option writer is fixed, but the Client must post margin to secure its position and may sustain a loss well in excess of the premium amount it received for writing the option. For example, the seller of an uncovered call option is subject to the risk that the price of the underlying security will increase, thereby subjecting the seller to significant losses. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. Option prices tend to decline over time as options near their exercise dates. This "time decay" must be offset by other factors, such as increased volatility, or options positions will decline in value. As short sales are often used by options market makers to hedge risks with respect to using and/or selling options, bans on short sales may have an unpredictable effect on the options markets making it difficult or uneconomical to buy or sell options.

### **Risks Related to Trading in Non-U.S. Markets**

*Trading on Exchanges Outside the United States.* Teza Capital trades on exchanges outside the United States on behalf of the Clients. Trading on such exchanges is not regulated by any United States government agency and may involve certain risks not applicable to trading on United States exchanges. Trading on foreign exchanges may involve the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums, exchange or investment controls and political or diplomatic disruptions, each of which might materially adversely affect the Clients' trading activities. In trading on foreign exchanges, the Clients are also subject to the risk of changes in the exchange rates between the United States dollar and the currencies in which the foreign contracts are settled. The Clients also may not have the same access to certain trades as do various other participants in non-U.S. markets.

*Trading on Futures Exchanges Outside the United States.* Teza Capital trades on futures exchanges outside the United States on behalf of the Clients. Some non-U.S. futures exchanges, in contrast to United States exchanges, are "principals' markets" similar to the forward markets in which performance is the responsibility only of the individual member with whom the applicable Client has entered into a futures contract and not of any exchange or clearing corporation. In such cases, the Client will be subject to the risk of the inability or refusal to perform with respect to the individual member with whom the Client has entered into a futures contract. The Clients also may not have the same access to certain trades as do various other participants in non-U.S. markets.

*Emerging Market Investing.* The Clients may invest a portion of their assets in equity and debt securities and related instruments in emerging markets. The value of emerging market instruments may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Clients, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments. The economies of many of the emerging market countries are still in the early stages of modern development and are subject



to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions having sudden and widespread effects. Also, many emerging market country economies have a high dependence on a small group of markets or even a single market. Emerging market countries tend to have periods of high inflation and high interest rates as well as substantial volatility in interest rates. The value of emerging market debt can be expected to be extremely sensitive to changes in interest rates worldwide and, in particular, in the country of the relevant issuer. Emerging market debt issuers and their obligations are not generally rated by any credit rating agency, and a significant proportion of such issuers and obligations would likely fall in the lowest rating category if they were rated.

*China Investing Risk.* Clients are subject to certain risks applicable to investing in A-shares in the People's Republic of China (the "PRC") that are unique to the PRC. China may be subject to considerable degrees of economic, political, and social instability. China is an emerging market and demonstrates significantly higher volatility from time to time in comparison to developed markets. Over the last few decades, the Chinese government has undertaken reform of economic and market practices and has expanded the sphere of private ownership of property in China. In addition, the Chinese economy is export-driven and highly reliant on trade. Adverse changes to the economic conditions of its primary trading partners, such as the United States, Japan, and South Korea, could adversely impact the Chinese economy.

Chinese markets generally continue to experience inefficiency, volatility, and pricing anomalies resulting from governmental influence, a lack of publicly available information, and/or political and social instability. Internal social unrest or confrontations with other neighboring countries, including military conflicts in response to such events, may also disrupt economic development in China and result in a greater risk of currency fluctuations, currency non-convertibility, interest rate fluctuations, and higher rates of inflation. China has experienced security concerns, such as terrorism and strained international relations. Incidents involving China's or the region's security may cause uncertainty in Chinese markets and may adversely affect the Chinese economy and a Client's investments. Export growth continues to be a major driver of China's rapid economic growth. Reduction in spending on Chinese products and services, institution of tariffs or other trade barriers, or a downturn in any of the economies of China's key trading partners may have an adverse impact on the Chinese economy. While policy implications remain uncertain, new regulations or trade barriers could lead to a decrease in trade activity between China and the U.S., which could have an adverse impact on the Chinese economy.

*China Securities Risk.* Investing in securities of Chinese companies, including investments that provide exposure to A-shares, involves certain risks and considerations not typically associated with investing in securities of U.S. issuers, including, among others: (i) the small size of the market for Chinese securities and low trading volume, resulting in a lack of liquidity and in price volatility; (ii) currency devaluations and other currency exchange rate fluctuations or blockages; (iii) the nature and extent of intervention by the PRC government in the Chinese securities markets, whether such intervention will continue, and the impact of such intervention or its discontinuation; (iv) the risk of nationalization or expropriation of assets; (v) the risk that the PRC government may decide not to continue to support economic reform programs; (vi) the limitation on the use of brokers; (vii) higher rates of inflation; (viii) greater political, economic, and social uncertainty; (ix) market volatility caused by potential regional or territorial conflicts or natural disasters; and (x) the risk of increased trade tariffs, embargoes, and other trade limitations. These factors can

directly affect A-shares. The economy of China differs, often unfavorably, from the U.S. economy in such respects as structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, interest rates, and allocation of resources and capital reinvestment. The PRC central government has historically exercised substantial control over virtually every sector of the Chinese economy through administrative regulation and/or state ownership and actions of the PRC central and local government authorities continue to have a substantial effect on economic conditions in China.

In addition, the PRC government has from time to time taken actions that influence the prices at which certain goods may be sold; encouraged companies to invest or concentrate in particular industries; induced mergers between companies in certain industries; induced private companies to publicly offer their securities to increase or continue the rate of economic growth; and controlled the rate of inflation or otherwise regulated economic expansion. It may do so in the future as well, potentially having a significant adverse effect on economic conditions in China. The Chinese securities markets are emerging markets with limited operating history characterized by relatively low trading volume, resulting in substantially less liquidity and greater price volatility. Liquidity risks may be more pronounced for the A-share market than for Chinese securities markets in general because the A-share market is subject to greater government restrictions and control, including trading suspensions. Price fluctuations of A-shares have been limited to either 5% or 10% per trading day. In addition, there is less regulation and monitoring of Chinese securities markets and the activities of investors, brokers, and other participants than in the United States. Accounting, auditing, and financial reporting standards in China are different from U.S. standards and, therefore, disclosure of certain material information may not be made. There is also less information available than would be the case if investments were restricted to securities of U.S. issuers. There is also generally less governmental regulation of the securities industry in China, and less enforcement of regulatory provisions, than in the United States. Additionally, it may be more difficult to obtain a judgment in a court outside of the United States.

### **Operational and Structural Risks**

*Operational Risks.* The strategies employed by Teza Capital on behalf of the Clients are highly dependent on information systems and technology. Any failure or deterioration of these systems or technology due to human error, data transmission failures or other causes could materially disrupt the Clients' operations or cause significant or even total losses.

A disaster or a disruption in the infrastructure that supports Teza Capital's business, including a disruption involving electronic communications or other services used by it or third parties with whom it conducts business, or directly affecting one of its offices or facilities, may have a material adverse effect on its ability to continue to operate the business without interruption. There can be no assurance that any backup or contingency measures will be sufficient to mitigate the harm that may result from such a disaster or infrastructure disruption or avoid losses, including total losses. In addition, any applicable insurance coverage and other safeguards might only partially mitigate the effects of such a disaster or disruption.

Teza Capital relies on third-party service providers for certain aspects of its business, including certain financial operations of the Clients, as well as certain software maintenance and support, trading operations support and research and development services in relation to certain Client

strategies. Any interruption or deterioration in the performance of these third parties, including the termination of related service agreements, could disrupt or otherwise negatively impact certain strategies implemented for the Clients, impair the quality of the Teza Capital's and/or the Clients' operations, or make it difficult if not impossible for Teza to implement its compliance procedures, any of which could lead to a complete loss.

*Trading Errors.* Teza Capital trades quantitatively, and due to the speed and volume of transactions entered into, as well as possible errors in computer code, software, hardware, and modes of transmission, trades may be executed in error. Many exchanges have adopted "obvious error" rules that prevent the entry and execution of trades more than a specified amount away from the current best bid and offer on the exchange. However, such rules generally will not be in place on the exchanges where Teza Capital trades on behalf of the Clients, and may not be enforced even if in effect. Moreover, such rules would likely not prevent the entry and execution of a trade entered close to the market but at an erroneous size. Any systems trading error (including trading system/computer code malfunctions) or human trading error, or combinations thereof, affecting a Client that are not due to a breach of Teza Capital's standard of care under such Client's investment management agreement will be for the account of the Client, which will enjoy the profits or suffer the losses from such trading error.

*Markets May Be Illiquid or Disrupted.* Most United States futures exchanges limit fluctuations in some futures contract prices during a single day by regulations referred to as "daily limits." During a single trading day no trades may be executed in such contracts at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Clients from promptly liquidating unfavorable positions and subject the Clients to substantial losses. Also, the CFTC or exchanges may suspend or limit trading. Trading on non-United States exchanges may also be subject to price fluctuation limits and are otherwise subject to periods of significant illiquidity. Trading in the forward currency markets is not subject to daily limits, although such trading is also subject to periods of significant illiquidity.

*Suspensions of Trading.* For all securities and futures traded on public exchanges, each exchange typically has the right to suspend or limit trading in whole or in part. Such a suspension could render it temporarily impossible for the Clients to liquidate their positions and thereby expose them to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough for the Clients to close out positions.

*Manual Trading.* Notwithstanding a Client's exchange memberships (if applicable), Teza Capital may cause a Client to execute manual trades with various brokers when it determines that doing so could be beneficial to such Client. This might occur, for example, if the Client intends to place a block trade that could receive preferential pricing through a broker. All such actions are subject to human error, which could have a material adverse effect on the performance of the Clients.

*Currency Hedging.* Certain Clients may issue classes denominated in non-U.S. dollar currencies, and Teza Capital may engage in hedging transactions, with respect to currency exchange risk, on behalf of such classes. There can be no assurance that any hedging transactions will be successful,

and there are transaction costs associated with such hedging, which will be borne by the relevant classes.

Non-U.S. currency hedging is a trading strategy that is effected through the use of derivatives, and the applicable Client will be required to settle trading losses on those derivatives, regardless of the liquidity of such Client's investment portfolio. There are several methods that a Client can use to ensure that it has sufficient liquidity to satisfy such trading losses and/or meet margin calls. First, a significant portion of the portfolio can be kept in cash to settle any hedging losses. However, holding cash dilutes a Client's returns from investments. Second, a Client can invest in strategies that are more liquid. This would allow Teza Capital to liquidate positions as necessary to satisfy losses on currency hedging transactions, if necessary and as needed. However, if the Client's investments suffer losses, then the assets invested in this structure may not be available to settle hedging losses. Client Investors should also recognize that to the extent investments are liquidated to satisfy losses on hedging transactions, the most liquid investments are most likely to be liquidated. Thus, satisfying hedging transaction losses will likely result in a less liquid portfolio for the Client. Third, a Client can seek to obtain a credit facility that can be drawn on in connection with its currency hedging activities, including among other things, to settle hedging losses. However, there can be no assurance that the credit facility provider will maintain the facility indefinitely, will not refuse a draw request, or will not itself fail, resulting in the loss of the credit line.

If the losses being incurred under an outstanding hedging transaction risk putting a Client in breach of that hedging transaction, the hedging transaction counterparty or broker, or Teza Capital itself, may determine that the hedging transaction must be liquidated in order to protect the relevant class from defaulting on its non-U.S. currency hedging contracts or causing termination events under those contracts or other counterparty relationships.

Creditors of a Client may, absent contrary contractual provisions, enforce claims against all assets of such Client, even if the creditors' claims relate to shares corresponding to a single class or series, because classes and series are not separate legal entities. Therefore, in the unlikely event of a deficit in Client shares corresponding to one class or series, assets corresponding to another class or series will be available to cover the deficit. As a result, if Client shares corresponding to non-U.S. dollar denominated shares of such Client experience losses that deplete the assets of the relevant class, those losses may be offset against shares corresponding to U.S. dollar interests or other non-U.S. dollar denominated interests (as applicable).

***The above description is a non-exhaustive representation of certain material risks associated with Teza Capital's investment strategies. Clients and Client Investors should refer to the applicable Governing Documents, including the offering memorandum or prospectus, for a more comprehensive description of the various risks.***

## **ITEM 9. DISCIPLINARY INFORMATION**

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There are no civil, criminal, regulatory, self-regulatory or administrative proceedings, actions or investigations pending against Teza Capital, Dr. Mikhail Malyshev or other members of Teza Capital's management that would be material to a Client's or prospective Client's evaluation of Teza Capital's business or the integrity of its management.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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*CFTC/NFA Registration.* Teza Capital is registered with the CFTC as a commodity pool operator and a commodity trading advisor and is a member of the NFA in such capacities. Teza Capital employs certain management personnel that are registered with the NFA as associated persons and principals.

*Client Terms.* Certain Clients trade pari passu in the same strategies and instruments as the other Clients but have materially more advantageous liquidity or termination rights, position transparency and/or access to Teza personnel, as well as other terms.

*Proprietary Trading.* Teza Capital and its affiliates (collectively, “Teza”) manage proprietary capital, and Teza Capital serves as investment adviser to certain proprietary accounts of Teza affiliates. The management of such proprietary capital constitutes a substantial portion of Teza’s business. Certain of Teza’s proprietary strategies will be the same, similar to, based upon, or otherwise share common features, signals or other elements with the strategies implemented for the Clients. Further, certain proprietary accounts will trade in the same instruments and markets as the Clients. Such proprietary accounts can be expected to take positions opposite to, or ahead of, those held by the Clients, and may compete with the Clients for positions in the marketplace or otherwise limit the Clients’ trading activity (e.g., as a result of firm-level position limits or canceled orders resulting from self-match prevention). This proprietary trading could adversely affect the Clients’ performance.

Teza expects that its proprietary trading will be materially more profitable, at least to Teza, than the Clients’ trading. The Clients will not share in the risks or rewards of such proprietary trading. Teza will have a conflict of interest with respect to such proprietary trading. As previously noted in Item 6, Teza Capital has an incentive to favor its proprietary accounts over the Clients. However, Teza Capital recognizes that it is a fiduciary and, as such, must act in the best interests of Clients and must treat all Clients fairly and refrain from favoring the interests of Teza over those of the Clients. Please see Item 11 and Item 12, respectively, regarding (i) the conflicts of interest related to proprietary trading and (ii) allocation policies and procedures intended to mitigate these conflicts.

## ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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### **Code of Ethics**

Teza Capital has adopted a Code of Ethics (the “Code”) pursuant to SEC rule 204A-1. The Code, along with related policies and procedures, is designed to ensure that Teza Capital employees place the interests of Clients before the employees’ own personal interests and maintain full compliance with applicable federal securities laws. Teza Capital’s Code contains policies and procedures intended to ensure that personal securities trading by Teza Capital employees is conducted in such a manner as to avoid conflicts of interest or abuse of an employee’s position. In addition, the Code includes: (i) a 30-day holding requirement for personal trading of covered securities and other products, (ii) disclosure of relevant personal accounts and transactions, and (iii) restrictions and limitations on certain types of transactions. Compliance with the Code is a material term of our employees’ employment agreements, and any employee who violates the Code may be subject to disciplinary action, including termination of employment.

Teza Capital will provide a copy of the Code and other relevant policies to any Client or prospective client upon request.

### **Certain Conflicts of Interest**

*The following description of certain conflicts of interest does not purport to be an exhaustive list or a complete explanation of all of the potential conflicts of interest involved in an investment with Teza Capital. The order in which they are described, and the length of each description do not indicate a priority or relative importance. Clients and prospective clients should refer to the applicable Governing Documents for a more comprehensive description of the various risks applicable to such Client.*

*Various Businesses; Proprietary Trading.*

Teza will be subject to a number of actual and potential conflicts of interest in relation to its various businesses, including Teza’s proprietary trading, Teza’s participation in a Chinese joint venture, and Teza’s management of the Clients. Teza generally operates as an integrated organization. Teza’s management of the Clients and Teza’s management of proprietary capital will depend on the services, facilities and personnel of the same Teza affiliates, such as Teza Technologies LLC, including not only programmers and portfolio managers but also middle- and back-office personnel, such as financial, operations, legal and compliance professionals. As a result, the same personnel will generally be responsible for developing, managing and monitoring both proprietary strategies and strategies implemented for the Clients. Although these personnel will have an incentive to favor Teza’s proprietary trading over the Client’s trading, employees are instructed regarding Teza’s fiduciary duty to clients and its related policies and procedures. The “dual hatting” of these professionals can also be expected to result in other operational issues, as such personnel may have insufficient time, ability or support to fulfill their obligations or may not have sufficient expertise in one or the other parts of Teza’s business to effectively perform their assigned functions.

As many Teza employees will be responsible for both proprietary and Client trading, Teza does not expect to implement informational, operational or technical barriers between its business lines. While this integrated structure results in certain efficiencies, the lack of such barriers can be expected to exacerbate the conflicts of interest inherent in Teza's structure. Teza does not expect to take other structural steps to minimize such conflicts, although Teza does instruct its employees regarding Teza's fiduciary duty to Clients. Teza intends to monitor and manage the conflicts of interest inherent in such an integrated structure, including pursuant to its allocation policies and procedures, as described in Item 12.



## ITEM 12. BROKERAGE PRACTICES

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Except to the extent set forth in the relevant Client's Governing Documents, Teza Capital is authorized to determine the broker or dealer to be used for each transaction on behalf of the Clients. In selecting brokers and determining commission rates, Teza Capital takes into account best execution qualities for the applicable Client. In selecting brokers, Teza Capital considers such factors as execution capability, research quality, commissions and pricing, block trading coverage for a particular security, effective communications, ability to position the proposed trade (*e.g.*, trading odd lots), distribution and underwriting capabilities, use of electronic efficiencies, ability to settle trades efficiently, financial stability, ancillary services and general reputation. In general, the primary criteria Teza Capital considers in selecting brokers are creditworthiness and efficiency of trade execution. If Teza Capital determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage, research products or investment management services and products provided by such broker, a Client may pay commissions to such broker in an amount greater than the amount another broker might charge.

Consistent with seeking best execution, Teza Capital may direct transactions for a Client to executing brokers in return for research or brokerage services furnished by the broker-dealer to Teza Capital. Selecting an executing broker in recognition of such research or brokerage services, rather than on the basis of simple transaction execution, is known as paying for those services with "soft dollars." Teza Capital does not currently expect to make any material use of soft dollar research. If Teza Capital makes any material use of soft dollar research in the future, such research and other brokerage services or products received by Teza Capital generally will be used to service all of Teza Capital's clients, and therefore a Client may not, in any particular circumstance, be the direct or indirect beneficiary of such brokerage services or products. In addition, it is possible that brokerage commissions paid by a Client may be used to pay for research or services that are not used in managing such Client. In some cases, the soft dollars paid to an executing broker for a Client may be greater than the commissions that are charged by another broker that does not provide soft dollar research or services to Teza Capital. Because many brokerage soft dollar products or services could be considered to provide a benefit to Teza Capital, and because the soft dollars used to acquire them are the assets of the Clients, Teza Capital has a conflict of interest in allocating the Clients' brokerage business.

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a "safe harbor" to investment managers who use soft dollars. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. It is Teza Capital's policy to limit its use of soft dollars to arrangements falling within the safe harbor of Section 28(e). Only bona fide research and brokerage products and services that provide assistance to Teza Capital in the performance of its investment decision-making responsibilities are permitted and any allocation of brokerage commissions will be reasonable in relation to the research, services or products provided. Teza Capital does not use brokerage in exchange for client referrals nor does it participate in "directed brokerage."

Teza Capital pays bundled commission rates and receives research and brokerage services provided by many of its executing and prime brokers. Teza Capital need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Commission rates are generally negotiable, and selecting brokers on the basis of considerations that are not

limited to commission rates may result in higher transaction costs than would otherwise be obtainable. Brokers may provide research and brokerage services directly or by paying service providers engaged by Teza Capital. In addition, Teza Capital may, subject to its best execution policy, trade with certain brokers primarily in consideration for providing research services. In any such case Teza Capital will determine in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research products or services provided by the broker.

Teza Capital may, but is not obligated to, enter into arrangements under which certain direct expenses of a Client are paid with soft dollars. Teza Capital will enter into such arrangements where it believes that it is administratively or operationally expedient to do so or where they are more favorable to such Client than an arrangement under which the Client pays for the products or services in question with cash. However, such arrangements make it more difficult for investors to evaluate the cost structure of such Client because the costs of such products or services are not broken out separately.

In addition to any soft dollar arrangements that Teza Capital enters into with brokers, brokers may provide certain research or other products or services to all of their customers, including Teza Capital, without being requested to do so. Teza Capital may take advantage of the products or services provided rather than producing or paying for them from another provider. In these situations Teza Capital receives a benefit because it does not have to pay for the products or services, such as research.

Teza Capital assumes no responsibility for the actions or omissions of any broker or dealer selected by Teza Capital in good faith.

Although in securities trading the brokerage and other transaction costs negotiated by an advisor for its clients are subject to the principle of best price and execution, as described above, no such requirement applies in futures and forward trading, in which the transaction charges are entirely a matter of negotiation. The brokerage commission rates charged to a Client may vary significantly. Futures and forward charge negotiations typically involve Teza Capital and the clearing brokers analyzing how frequently Teza Capital trades and then “backing into” a per-trade commission figure which generates sufficient revenues for the clearing brokers. Brokerage commissions vary depending on a Client’s volume of trading, whether the trading is done on electronic exchanges, and other considerations. In addition, Teza Capital in its discretion may cause a Client to execute its trades on an average price basis.

Notwithstanding a Client’s indirect exchange memberships, Teza Capital may cause a Client to execute manual securities or futures trades with various brokers when it determines that doing so could be beneficial to such Client. This might occur, for example, if a Client intends to place a block trade that could receive preferential pricing through a broker.

*Aggregation of Orders.* Teza Capital currently aggregates sale and purchase orders of securities and futures held by certain Clients with similar orders being made simultaneously for other Clients or proprietary accounts, in each case where multiple accounts trade *pari passu* in the same strategy. In such cases, Teza Capital will only aggregate orders if, in Teza Capital’s reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to each

applicable account, including each Client based on an evaluation that such account is benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. When the purchase or sale of instruments for a Client is effected simultaneously with the purchase or sale of like instruments for other Clients or proprietary accounts, such transactions will be allocated in accordance with Teza Capital's systematic allocation methodology, which is intended to ensure that allocations are made in a fair and equitable manner. Such transactions may be made at different prices, due to the volume of instruments purchased or sold. In such event, the average price of all instruments purchased or sold in such transactions will be determined, and the Client will be charged or credited, as the case may be, the average transaction price. If average pricing is unavailable, Teza Capital will use the actual exchange fill prices and a round-robin methodology to allocate such trades according to predefined allocation ratios. The commissions charged to a Client may differ from those charged to other Clients or proprietary accounts as a result of the specific arrangements with the applicable prime broker or futures commission merchant, and/or exchange memberships applicable to each account. However, the aggregation of orders is not expected to adversely affect a Client's own exchange pricing or latency in trading.

*Principal and Cross Trades.* Periodically, Teza Capital may seek to adjust or rebalance Fund investment accounts or portfolios by effecting cross trades between or among client investment accounts, including Fund accounts in which Teza Capital and its affiliates are invested (i.e., causing one or more such accounts to sell securities to one or more such client accounts). Such transactions may involve the Fund. In effecting such cross trades, Teza Capital seeks to reduce the transaction costs to its clients of such account adjustments. All such intentional cross trades will be consistent with the investment objectives and policies of each client account involved in the trades and generally will be effected at a current independent market price of the securities involved in the trades determined by Teza Capital. Cross trades will not be effected in securities for which no current independent market price is available. Client accounts, including the Funds, involved in cross trades will not pay any brokerage sales commissions in connection with the trades, but may pay independent broker dealers charges for independent pricing, execution and clearing of the trades and related services.

Teza Capital or its affiliates may enter into "principal transactions" with a Fund within the meaning of Section 206(3) of the Advisers Act in which any of Teza Capital or such affiliates act as principal for its own account with respect to the sale of a security to or purchase of a security from the Fund. Principal transactions and other significant transactions between a Fund and Teza Capital or its affiliates will be done in compliance with applicable law. In analyzing such trades, Teza Capital will have a conflict between acting in the best interests of the Fund and assisting itself or its affiliate by selling or purchasing a particular security.

### *Strategy Allocation.*

At present, Teza manages and expects to continue to manage the Clients and proprietary accounts, some of which invest pursuant to the same or similar strategies. There are no or limited restrictions on Teza's ability to manage other clients or proprietary accounts, including those that follow the same investment objective, philosophy and strategy as those used for the Clients. Further, certain Clients trade *pari passu* in the same strategies and instruments as other Clients, but have materially more advantageous investor liquidity, position transparency and/or access to the Teza personnel, as well as other terms, and in the future proprietary accounts may trade *pari passu* with Clients as well. In the event other Clients or proprietary accounts liquidate positions that are the same or similar to those of a Client, such liquidations could have an adverse effect on such Client. Notwithstanding any similar investment mandates or strategies, however, the Clients' respective strategies and the implementation thereof may differ in certain respects from those used for other Clients or proprietary accounts, and there can be no assurance that any Client will trade *pari passu* in the same strategies as another Client or proprietary account.

Teza faces conflicts of interest in allocating strategies among the Clients and the proprietary accounts because Teza has an incentive to favor accounts with more favorable fee arrangements and proprietary accounts, and allocation decisions sometimes involve subjective determinations by Teza. Subject to the applicable Governing Documents, Teza determines the strategy allocation between Client accounts and proprietary accounts, and the relative strategy mix and exposures for each such account, based upon the expected characteristics of each strategy and the intended characteristics of each account, including (without limitation): investment objectives, investment universe, markets traded, instruments traded, target volatility, holding period, risk tolerance, capital requirements, account capital (including as a result of subscriptions and withdrawals/redemptions), return objectives, portfolio concentration and/or diversification, sector exposure, strategy correlations, liquidity considerations, technological and operational requirements and/or complexity, trading infrastructure and/or other costs, tax considerations, and regulatory considerations. Teza may determine that an investment opportunity is appropriate for one Client, or for itself, but not for another Client. Teza may allocate to its proprietary accounts or other Clients strategies that are the same, similar to, based upon, or otherwise share common features, signals or other elements with the strategies implemented on a Client's behalf. In addition, adjustments or improvements made to strategies implemented for a Client may be allocated only to proprietary accounts and/or other Clients, and such Client may not receive the benefit of such adjustments or improvements. Certain proprietary strategy research and developments may also indirectly benefit the strategies implemented for the Clients, but there can be no assurance of any such indirect benefits.

Situations may arise in which other Clients or proprietary accounts have made investments that would have been suitable for investment by a Client but, for various reasons, were not pursued by, or available to, such Client. To the extent that Teza, its affiliates, or another Client invests in a particular strategy or investment, a Client's ability to invest in the same strategy or investment may be adversely affected by any limitation on availability thereof (e.g., capacity-constrained strategies).

Allocation decisions will be based on subjective factors and, in the event a strategy is allocated to multiple accounts, such allocation may not be proportionate to each account's net asset value.

Clients will not be entitled to participate in any strategies other than those allocated to such Client by Teza Capital. In the future, Teza may manage additional clients or proprietary accounts with different characteristics, and Teza will consider such clients' or accounts' characteristics when making strategy allocation decisions.

### **ITEM 13. REVIEW OF ACCOUNTS**

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Teza Capital's portfolio managers and other senior personnel regularly review the Clients' accounts. The nature of the review involves, but is not limited to, analyzing certain performance and risk measures. Investors in Funds sponsored by Teza Capital receive written monthly unaudited performance information, and are provided annually with a copy of the Schedule K-1 (for domestic "feeder funds" only) and audited year-end financial statements for the applicable Fund, generally within 120 days of year-end. Investors in other Clients receive such reporting set forth in the applicable Governing Documents.

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

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Teza Capital, or a related person, may directly or indirectly compensate certain person(s) who are not supervised persons for investor referrals. These are typically compensation arrangements involving placement agents referring investors to the Funds. Placement agents may receive, in respect of investors introduced to a Fund, an upfront commission equal to a percentage of the amount invested by any such investor in addition to any ongoing share of Teza Capital's fees and allocations. These placement fees will be paid upon subscription and will be in addition to, not a deduction from, the subscription amount. Any placement fee may be waived or reduced in respect of any particular investor without thereby entitling any other investor to a similar waiver or reduction.

Other than the previously described "soft dollars" (see "Brokerage Practices" above) that Teza Capital may receive from broker-dealers, Teza Capital does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

## **ITEM 15. CUSTODY**

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Under Rule 206(4)-2 of the Investment Advisers Act of 1940, Teza Capital or, in respect of the onshore “feeder funds” sponsored by Teza Capital, Teza GP LLC (“Teza GP”), the general partner of such onshore “feeder funds,” are deemed to have custody of the securities and other assets of each Fund sponsored by Teza Capital even though neither Teza Capital nor Teza GP physically holds the securities and other assets, and such securities and assets are not held or registered in Teza Capital’s or Teza GP’s name. Teza Capital and Teza GP are exempt from many of the provisions of Rule 206(4)-2 because each such Fund is audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed to each Client Investor in a Fund within 120 days of the end of each fiscal year.

Teza Capital does not expect to have custody with respect to Clients that are sponsored by third parties.



## **ITEM 16. INVESTMENT DISCRETION**

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Teza Capital has discretionary authority over each Client's investment portfolio (or relevant accounts, as applicable) pursuant to a grant of authority in the applicable Governing Documents. Client Investors cannot impose any restrictions on Teza Capital's investment discretion over the Clients.

## **ITEM 17. VOTING CLIENT SECURITIES**

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Teza Capital has authority to vote the Clients' securities. The Clients may not direct their votes in a particular proxy solicitation, except to the extent otherwise set forth in the applicable Governing Documents.

Teza Capital maintains proxy voting policies and procedures designed to act in the best interest of the Clients. Teza Capital's trading follows a systematic approach and is not dependent on the outcome of proxy contests. In fact, in many cases Teza Capital will have exited a position by the time it receives proxy voting material. Accordingly, Teza Capital has determined that the costs of such voting would outweigh the potential benefits to the Clients, and therefore will not vote proxies.

However, in the event Teza Capital determines in the future that voting proxies would provide a material benefit to Clients (*e.g.*, as a result of changes in its trading strategies) or the Teza Capital is otherwise required to vote proxies by law or regulation or pursuant to the applicable Client agreement, Teza Capital will vote such proxies in the best interests of each Client and a matter consistent with its fiduciary duty to each Client and each Client's stated investment objectives, including maximizing the value of the Client's portfolio.

To the extent applicable, the Chief Compliance Officer will monitor the potential for conflicts of interest on the part of Teza Capital with respect to proxy voting as a result of personal relationships, significant Client relationships, potential conflicts of interest among Clients or special circumstances that may arise during the conduct of Teza Capital's business. If a conflict of interest is identified, Teza Capital will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, in accordance with Teza Capital's proxy voting policies and procedures.

Clients and investors may obtain a copy of Teza Capital's proxy voting policies and procedures as well as relevant proxy voting records (if any) upon request.

## **ITEM 18. FINANCIAL INFORMATION**

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This Item is not applicable. Teza Capital has never filed for bankruptcy and is not aware of any financial condition that is expected to impair its ability to meet contractual commitments to its Clients.