

Mandalay Financial, L.L.C. dba Ridgeback Capital Management

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This Brochure provides information about the qualifications and business practices of Mandalay Financial, L.L.C. dba Ridgeback Capital Management. If you have any questions about the contents of this Brochure, please contact Michael C. Kuznicki at 713-667-4026 and/or [mkuznicki@ridgebackcm.com](mailto:mkuznicki@ridgebackcm.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Mandalay Financial, L.L.C. dba Ridgeback Capital Management is a registered Investment Adviser. Registration of an investment adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

This item is used to discuss only specific material changes that are made to the Brochure and provide Clients with a summary of such changes. Mandalay Financial, L.L.C. dba Ridgeback Capital Management (“Ridgeback Capital Management” or “Firm”) will ensure that clients receive a summary of any material changes to this and subsequent Brochures within 120 days of its business’ fiscal year-end. Further, Ridgeback Capital Management will provide clients with new Brochures, as necessary, based on changes or new information, at any time, without charge. There are no material changes to report at this time.

Currently, our Brochure may be requested by contacting Michael C. Kuznicki, President, at 713-667-4026 or via email at [mkuznicki@ridgebackcm.com](mailto:mkuznicki@ridgebackcm.com). Additionally, the Firm’s Brochure is available on the Firm’s Web site at [www.ridgebackcm.com](http://www.ridgebackcm.com).

Additional information about Ridgeback Capital Management is also available via the SEC’s Web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm’s CRD number is 113848. The SEC’s Web site also provides information about any persons affiliated with Ridgeback Capital Management who are registered, or are required to be registered, as investment adviser representatives of the Firm.

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## **Item 4 – Advisory Business**

### **Advisory Services and Fees**

Ridgeback Capital Management was formed in January 1999 and is owned by Michael C. Kuznicki who serves as President and Chief Compliance Officer (“CCO”). Ridgeback Capital Management provides investment advisory services to its Clients by effecting purchases and sales of mutual fund shares and individual securities in its Clients’ accounts. In providing such services, Ridgeback Capital Management may advise directly and/or invest Clients’ funds through other investment advisers, money managers, and/or investment companies.

#### ***Frontier Asset Management, LLC. (“Frontier”)***

Ridgeback Capital Management offers its Clients access to mutual fund portfolios provided and managed by Frontier. As a Sub-Adviser, Frontier offers investment management services primarily through portfolios managed within a specific framework of return objectives and limits on risk. This allows Ridgeback Capital Management to assist Clients in selecting a portfolio consistent with their goals, preferences and tolerance for risk. Frontier’s portfolios primarily consist of portfolios in two categories, Globally Diversified and Alternative Strategies.

Globally Diversified Portfolios consist of Global Opportunities, Long-Term Growth, Growth & Income, Balanced, Conservative, Capital Preservation and Short-Term Reserve. These portfolios are constructed using 16 asset classes and are designed to satisfy the “core portfolio” needs of investors at defined risk levels. For most of these portfolios, there are set asset allocation ranges for each major asset class group.

Alternative Strategies Portfolios consist of Focused Opportunities, Absolute Return Plus and Absolute Return. Alternative Strategies may be broadly diversified, but since there are no asset class constraints on our Alternative Strategies, they may, at times, be more narrowly concentrated than our Globally Diversified portfolios.

Frontier will manage portfolios for Clients on a discretionary basis in accordance with the Investment Policy Statement or equivalent document, specific to each Client. As detailed above, the portfolios will consist of mutual funds unless otherwise agreed. Frontier conducts ongoing research regarding mutual funds and will select mutual funds specific to each Client. Frontier monitors each account on an ongoing basis and will purchase or sell mutual funds on a discretionary basis consistent with the investment policies of each account. Frontier also prepares materials periodically to assist Ridgeback Capital Management in conducting periodic portfolio reviews of each Client account.

Frontier, as sub-advisor, charges an annual fee to manage its mutual fund portfolios on a discretionary basis. Frontier requires payment in advance at the beginning of each calendar quarter. Accounts are debited shortly after the beginning of each quarter, based on the value of the account on the last day of the preceding quarter. Frontier's fee, as sub-advisor, does not include brokerage transaction fees associated with purchases and sales of mutual funds for the account.

Mutual funds purchased for client accounts charge internal management fees and incur expenses that are deducted from the assets of the fund. These fees and expenses are in addition to Frontier's fees. Upon written notification, the Frontier relationship agreement may be terminated by either Ridgeback Capital Management or Client. Prorated fee refunds are given for accounts that are terminated during a quarter for fees that were charged in advance but not earned.

***Envestnet Asset Management, Inc. ("Envestnet")***

Ridgeback Capital Management offers its Clients access to individual asset managers, mutual fund portfolios and other investment management services offered by Envestnet. Envestnet offers its services to Ridgeback Capital Management's Clients primarily through two programs, its Private Wealth Management Managed Account Solutions ("PWM") and Private Wealth Management Mutual Fund Solution ("MFS").

Ridgeback Capital Management's advisory representatives may recommend managers in the PWM program to its Clients. Managers and investment vehicles are selected by Envestnet to participate in the PWM program after an intensive evaluation and due diligence process that focuses on quantitative factors such as historical performance and volatility and qualitative considerations such as the manager's and investment vehicle's reputation and approach to investing.

The mutual funds included in the MFS are subject to a due diligence process similar to the process used for the PWM alternatives, but since mutual funds are publicly-offered securities, Envestnet relies more heavily on publicly-filed documents for its review. The Client is provided with the initial allocation for approval prior to implementation, but once the Client's MFS assets are invested, Envestnet may add, remove or replace mutual funds in its discretion.

Clients participating in PWM and MFS are required to grant full discretionary investment authority to Envestnet to determine the securities to be bought or sold and the amount of securities to be bought or sold. Envestnet, through one of several broker/custodian relationships, will provide confirmations and statements of activity on all transactions and quarterly performance reports. Annually, the Client will receive a tax report for the account.

Clients pay an all-inclusive fee out of which Envestnet pays the manager fee, if applicable, and the account administrative fee (includes charges for custody, clearing, transaction execution and

account reporting). For MFS, Clients pay fund-related expenses in the mutual funds, in place of the manager fee. Fees charged are calculated as an annual percentage of assets based on the market value of the account at the end of the quarter. Fees are billed on a calendar quarter basis, in advance, and prorated to the end of the quarter upon inception of the account. Client is referred to Envestnet Asset Management, Inc.'s Form ADV, Part 2A Appendix for additional disclosures regarding its programs.

### ***SEI Investments Management Corporation***

Ridgeback Capital Management offers its Clients access to mutual fund portfolios provided by SEI Investments Management Corporation ("SEI"). SEI serves as the investment adviser to a number of portfolios within the SEI family of mutual funds, each an SEC registered investment company. With respect to SEI funds, SEI has retained multiple sub-advisors to provide day-to-day securities selection in each style or asset class. The sub-advisors are selected as a result of SEI's manager research process. Sub-advisors may be replaced as a result of SEI's monitoring and portfolio management process.

SEI implements the asset allocation recommendations with globally diversified equity and fixed income portfolios. Portfolio construction follows a "style structured" approach to investing. SEI provides overall, daily investment management and is generally responsible for reviewing, coordinating, and administering the investment program of each such portfolio.

In addition to Ridgeback Capital Management's fees, Clients pay fund-related expenses in the mutual funds in which account assets are invested. SEI Private Trust Company will debit the investor's account on a quarterly basis for the above mentioned fees and charges. The charges to the account will be on an arrears basis and will be remitted quarterly net of any applicable account and performance reporting charges not charged to the customer. Upon written notification, the agreement may be terminated by either Ridgeback Capital Management or Client. Prorated fees will be charged based on market value on the date notice is received.

Client will receive monthly statements from the SEI Private Trust Company indicating holdings. A performance report indicating market value, cash flows, gains and losses, asset allocation, and the performance as it relates to a style benchmark is available quarterly. Annually the Client will receive a tax report for the account.

### ***Ridgeback Asset Management with TD Ameritrade***

Ridgeback Capital Management will assist Clients in choosing an appropriate program based on Client's individual goals and to accomplish Client's investment objectives. Ridgeback Capital Management may perform asset allocation and mutual fund/securities selection services for its Clients. Certain Clients of Ridgeback Capital Management may participate in the Managed Account Program as offered by Ridgeback Capital Management. Ridgeback Capital

Management will not maintain custody of the property in Clients' accounts; Client will enter an agreement with T.D. Ameritrade ("the Custodian") under which the Custodian will maintain custody of the property in the accounts.

Clients in the Managed Account Program will be charged an annual fee that will be charged quarterly in advance (the "Advisory Fee") based on a percentage of assets under management. See Ridgeback Capital Management's standard fee in Item 5 below. The Advisory Fee does not include any bank fees, margin interest, national securities exchange fees, wire transfer fees or other costs or fees associated with securities transactions or required by law. Clients' funds awaiting investment may be placed in a money market fund; Ridgeback Capital Management's fees do not include any internal fees and expenses of any money market fund. Money market funds may be affiliated with the Custodian. Accounts with funds invested in mutual funds will bear a proportionate share of the fund's internal fees and expenses, which are not included in Ridgeback Capital Management's fees. Clients should review all fees and expenses charged by mutual funds, Ridgeback Capital Management, and others to fully understand the total amount of fees and expenses the Client will pay.

### **Financial Plans**

Ridgeback Capital Management prepares written financial plans for its Clients upon request.

### **Third Party Money Manager Programs**

Ridgeback Capital Management may enter into advisory agreements with other registered investment advisers to offer advisory services of the other adviser. Under this agreement, a portion of the fees paid may be shared with Ridgeback Capital Management. Ridgeback Capital Management will perform the due diligence review and executed agreements will be on file for these arrangements. This advisory agreement will be disclosed by Ridgeback Capital Management at the time the service is provided to Clients by delivery of the Form ADV Part 2A for Ridgeback Capital Management and the other advisory firm.

### **Miscellaneous Advisory Services**

Additionally, on an occasional basis, Ridgeback Capital Management may provide Clients with miscellaneous investment advisory services, such as financial planning and investment selection, with regard to assets or matters that are not subject to management or supervisory agreement. Such relationships will be documented in writing and Ridgeback Capital Management will charge an hourly rate of between \$150 and \$250 per hour for such services.

### **Termination of Agreements**

Clients are required to sign an investment advisory agreement with Ridgeback Capital Management. The agreement provides that it shall be continuous until one party to the

agreement terminates it. Each agreement provides that the Client may terminate the agreement within five business days of its effective date without paying any fees or penalties to Ridgeback Capital Management. The agreement also provides that once the initial five-day period has passed, either party to the agreement may terminate the agreement at any time by providing written notice to the other party.

Ridgeback Capital Management does not have discretionary authority for any of the assets it directly manages. In addition, Ridgeback Capital Management does not have discretion to substitute third-party managers in these accounts. Any third-party manager used by the client, however, will maintain trading discretion over the respective account. As of December 31, 2016, the Firm had approximately \$140,000,000 in assets under management.

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## **Item 5 – Fees and Compensation**

Ridgeback Capital Management's standard advisory fee is based on a sliding scale, determined by the total of the client's assets under management. This fee typically is 1% of assets under management. If a sub-advisor is utilized, the sub-advisor's standard fee will be added to the fee charged by Ridgeback Capital Management (for example, if the Ridgeback fee is 1% and the third-party managers fee is .5%, then the total fee to the client will be 1.5%).

Ridgeback Capital Management's fees may vary depending on a number of factors, including, but not limited to, the aggregate amount of funds under management and the aggregate funds under management in household related accounts. As a result, fees may vary from Client to Client. Fees are subject to negotiation.

### **Payment of Fees**

Clients may pay Ridgeback Capital Management's fees directly or a Client may authorize the deduction of fees from the Client's account, which the Custodian maintains. The Custodian will not verify Ridgeback Capital Management's fee calculation. Clients may issue written instructions directing Ridgeback Capital Management to deduct fees from one of the Client's Ridgeback Capital Management accounts to pay the fees of another of the Client's Ridgeback Capital Management accounts. For specific information on the fees associated with the various programs offered by Ridgeback Capital Management, Clients should consult Item 4 above and/or the ADV Part 2As of the various investment managers.

Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals as determined by Ridgeback Capital Management). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon execution of the Client Agreement and availability of client assets for management, the first fee will be prorated through the end of the quarter and paid at commencement of investment management. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned unpaid fees will be due and payable.

For some of Ridgeback Capital Management programs, fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the Client while others are all inclusive (“Wrap programs”) depending on the structure of the program. Unless Clients are in one of the Wrap programs, they may incur certain charges imposed by custodians, brokers, third party investment and other third parties. These charges could include things such as fees charged by managers, custodial fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in each fund’s prospectus. Such charges, fees and commissions are exclusive of and in addition to Ridgeback Capital Management’s fee and the Firm will not receive any portion of these commissions, fees, and costs.

Ridgeback Capital Management prepares written financial plans for its Clients upon request. The design fee for the preparation of such plans ranges from \$1,000 to \$5,000 and may be charged at an hourly rate or for a fixed fee. Hourly rates and fixed fees vary according to the Client’s situation, and the Client is required to agree to all design fees in writing. The design fee is negotiable, and it may be waived in certain circumstances. The factors involved in negotiating the fee may include the size of any accounts the Client maintains (or proposes to maintain) and any other relationship between the Client and Ridgeback Capital Management. The design fee is ultimately based upon the education and expertise needed to prepare the plan and the complexity of the Client’s financial situation. Design fees are payable within 30 days of the completion and delivery of the Financial Plan to the Client.

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

Ridgeback Capital Management only charges fees based on assets under management does not charge any performance-based fees such as those based upon a share of capital gains on or capital appreciation of the assets of a Client.

## **Item 7 – Types of Clients**

Ridgeback Capital Management provides financial planning and investment advisory services to individuals, high net worth individuals, corporations, trusts or estates and charitable institutions. For some programs, the Firm has negotiable minimum account sizes. Clients should consult the information on Clients contained in Item 4 above and/or the ADV Part 2A as of the various investment managers.

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

**Modern Portfolio Theory (MPT)** is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets.

MPT is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. That this is possible can be seen intuitively because different types of assets often change in value in opposite ways. For example, as prices in the stock market tend to move independently from prices in the bond market, a collection of both types of assets can therefore have lower overall risk than either individually.

The Firm practices comprehensive financial planning and portfolio management minimizing risk and expenses, to assist clients in achieving their goals.

**Concept** – The fundamental concept behind MPT is that the assets in an investment portfolio should not be selected individually, each on their own merits. Rather, it is important to consider how each asset changes in price relative to how every other asset in the portfolio changes in price.

Investing is a tradeoff between risk and expected return. In general, assets with higher expected returns are riskier. For a given amount of risk, MPT describes how to select a portfolio with the highest possible expected return. Or, for a given expected return, MPT explains how to select a portfolio with the lowest possible risk (the targeted expected return cannot be more than the highest-returning available security, of course, unless negative holdings of assets are possible).

### **Risk and Expected Return**

MPT assumes that investors are risk adverse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's evaluation of the Firm or the integrity of the Firm's management. Ridgeback Capital Management has no information to disclose under this Item.

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

Mr. Kuznicki runs a CPA firm, Michael C Kuznicki CPA. As such, clients may retain him for his CPA services under a separate engagement.

Additionally, Mr. Kuznicki is an agent for various insurance companies. Clients may pay an insurance commission for insurance products. These fees are separate from investment management fees and payable to Mr. Kuznicki directly as the insurance agent.

## **Item 11 – Code of Ethics**

Ridgeback Capital Management has adopted a Code of Ethics for all Supervised Persons of the Firm describing its high standard of business conduct and its fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on, and the reporting of gifts and gratuities and personal securities trading procedures, among other things. All Supervised Persons at Ridgeback Capital Management must sign an acknowledgement, acceptance, and understanding of the terms of the Code of Ethics, annually. Clients or prospective Clients may obtain a copy of the Firm's code of ethics upon request from Michael C. Kuznicki.

With respect to those accounts which Ridgeback Capital Management manages directly, no security may be bought or sold by a principal or employee or associated person of Ridgeback Capital Management before Ridgeback Capital Management's Clients' accounts have had the opportunity to make such transactions as appropriate. Principals and employees will not receive a more favorable execution price on a particular day than those received by Ridgeback Capital Management's investment advisory Clients.

To prevent conflicts of interest, all employees and associated persons of Ridgeback Capital Management must comply with the firm's Written Supervisory Procedures, which impose restrictions on the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons.

The Written Supervisory Procedures require prior clearance and monthly reports on all personal securities transactions, except transactions in investment company securities and/or other exempt transactions. Further, such Written Supervisory Procedures impose certain policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by any officer, partner, or associated person of Ridgeback Capital Management.

Notwithstanding the above, Ridgeback Capital Management, and/or its members, employees or associated persons may purchase for themselves similar or different securities as are purchased or recommended for investment advisory Clients of Ridgeback Capital Management, and different securities or transactions may be effected or recommended for different investment advisory Clients of Ridgeback Capital Management.

## **Item 12 – Brokerage Practices**

In selecting brokers and evaluating the reasonableness of their commissions, Ridgeback Capital Management considers the following factors: the range and quality of the products the broker offers, the technical support the broker provides, the broker's execution capability, the commissions to be paid, the financial responsibility of the broker, and the responsiveness of the broker to the Firm. Michael C. Kuznicki will conduct a review of all brokerage arrangements at least annually.

Ridgeback Capital Management may purchase bonds or sell bonds for Clients' accounts through Dzik Investments, LLC, a branch office of Shearson Financial, LLC. Shearson Financial, LLC may pay a portion of their commission/markup to its registered representatives, Robert Dzik or Justin Dzik. Robert Dzik is the husband of Lois Dzik and Justin Dzik is the son of Lois Dzik. Lois Dzik is the Director of Client Relations at Ridgeback Capital Management. Ridgeback Capital Management receives no commissions or other compensation for these transactions.

TD Ameritrade supplies Ridgeback Capital Management with products and services that assist the firm in managing and administering Clients' accounts. These products and services include software and other technology that provide Ridgeback Capital Management with access to Client account data at TD Ameritrade (such as trade confirmations and account statements), facilitate trade execution, provide pricing information and other market data, facilitate payment of our fees from Clients' accounts, and assist with back-office support, recordkeeping and Client reporting.

### **Item 13 – Review of Accounts**

Ridgeback Capital Management offers managed account programs to its Clients. These managed accounts are monitored on a systematic basis, and each account is reviewed at least annually by Michael C. Kuznicki or another designated principal. Notwithstanding the above, more active accounts and larger accounts may be reviewed more often. The number of accounts that each principal reviews will depend on the number of accounts in the firm.

The nature and frequency of reports to Clients are determined primarily by the particular needs and requests of each Client. Generally, Clients of the Managed Account Program are issued semi-annual performance reports by Ridgeback Capital Management and the Client will also receive monthly or quarterly account statements from the custodian detailing all activity in the Client's managed account. With regards to the Frontier, Envestnet and SEI programs, Clients will receive periodic reports generated by the program sponsors, as disclosed in the Client agreements and Form ADV Part 2A Appendix which are related to each respective program.

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

Neither Ridgeback Capital Management nor any of its Supervised Persons receives any economic benefits from any persons or entities who are not Clients. Further, Ridgeback Capital Management or any of its Supervised Persons do not directly or indirectly compensate any person or entity for Client referrals.

## **Item 15 – Custody**

Clients will receive at least quarterly statements from the broker/dealer, bank or other qualified custodian that holds and maintains Clients' investment assets. Ridgeback Capital Management urges its Clients to carefully review such statements and compare such official custodial records to any account statements or information that Ridgeback Capital Management may provide to them. Ridgeback Capital Management's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

Ridgeback Capital Management currently does not manage any investment accounts where it has discretionary authority. The third party money managers it utilizes do have discretionary authority over the assets invested with them. The Client should consult the Form ADV Part 2A Appendix for each manager for more information on processes, procedures and any limitations on such authority.

## **Item 17 – Voting Client Securities**

It is the general policy of Ridgeback Capital Management to not vote proxies for those securities held in all Client accounts. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in Client portfolios. However, in certain instances, the Firm may provide advice to Clients concerning the voting of proxies. A client should review the Form ADV Part 2A of the respective third party money manager for their policies with regard to voting proxy on securities held at their account at the third party manager.

## **Item 18 – Financial Information**

Ridgeback Capital Management is well capitalized and has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of a bankruptcy proceeding.