

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

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**This brochure provides information about the qualifications and business practices of Zebra Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (203) 878-3223 or at [peter.schaffer@zebracapm.com](mailto:peter.schaffer@zebracapm.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.**

**Additional information about Zebra Capital Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Zebra Capital Management, LLC is 126285.**

## **Item 2. Summary of Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Firm Brochure is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss specific material changes that are made to the Firm Brochure and provide clients with a summary of such changes.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Firm Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

*As of the date of this Firm Brochure, July 2011, there are no material changes to disclose.*

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## **Item 4. Advisory Business**

### **Introduction**

Zebra Capital Management, LLC (hereafter “Zebra Capital,” “Firm” or “we”) is a Connecticut limited liability company and investment management firm with its principal place of business in Milford, Connecticut. The Firm has been in business since 2001 and is a registered adviser with the U.S. Securities and Exchange Commission. Zebra Capital is owned and managed by Professor Roger Ibbotson and Peter Schaffer as Managing Members.

Zebra Capital provides Investment Supervisory Services, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client. Zebra Capital provides these services primarily to pooled investment vehicles. Zebra Capital manages the client portfolios on a discretionary basis in accordance with the terms and conditions of each client's offering, organizational documents or client agreements and objectives. Zebra Capital also acts as sub-adviser to American Beacon Advisors and Destra Capital Management for several open-end registered investment companies. Zebra Capital also provides investment management services to institutions or other entities on a separately managed account basis.

Zebra Capital’s mission and objective is to apply the substantial investment experience and expertise of Professor Roger Ibbotson, Managing Member and Chief Investment Officer and Peter Schaffer, Managing Member and Chief Operating Officer.

As of the date of this Firm Brochure, July 2011, Zhiwu Chen, co-founder, minority owner and Managing Member has resigned from the firm.

Currently, Zebra Capital manages approximately \$600 million in client assets.

Zebra Capital is affiliated through common ownership and control with Zebra Advisors, LLC, (“Zebra Advisors”) also a Delaware limited liability company and registered investment adviser with the U.S. Securities and Exchange Commission.

### **Investment Management Services**

#### ***ZEBRA CAPITAL FUNDS***

The following summaries provide information about the pooled investment vehicles managed by Zebra Capital and Zebra Advisors.

Zebra Capital employs investment strategies through the pooled investment vehicles that are suitable to sophisticated investors with substantial net worth and who are able to bear the risks of the strategies employed.

Investors should also be aware of additional risks associated with investing in the pooled investment vehicles, many of which are described in the offering documents of the respective pooled investment vehicles.

Zebra Capital provides Investment Supervisory Services to the following on-shore, off-shore and master investment funds (hereafter "Zebra Capital Funds"). The Zebra Capital Funds are managed and seek to take advantage of the complementary skills and experience of Mr. Schaffer and Professor Ibbotson. Equity interests in the Zebra Equity Funds will be offered solely to a limited number of qualified institutional and individual investors.

Prior to any investment in any Zebra Capital Funds, investors receive a confidential private placement offering memorandum which contains a detailed description of the types of investments Zebra Capital may cause the Zebra Capital Funds to invest in and the corresponding risks associated with those investments, fees, service providers, conflicts, tax considerations, trading and other information.

#### Zebra Global Liquidity Arbitrage Funds

The investment objective of the Zebra Global Liquidity Arbitrage Funds is to offer attractive returns with relatively low-risk and low correlations to the major market indices. The Zebra Global Liquidity Arbitrage Funds are designed to be funds employing a long-short equity strategy, which seeks to exploit the liquidity premium among public equities by taking long positions in less liquid stocks with strong fundamentals, and short positions in highly liquid stocks with weak fundamentals.

- \* Zebra Global Liquidity Arbitrage Fund, LP ("Domestic Zebra Global Liquidity Arbitrage Fund") is a Delaware limited partnership. Zebra Capital's affiliated investment advisory firm, Zebra Advisors, LLC, acts as the investment manager for the Domestic Zebra Global Liquidity Arbitrage Fund.

- \* Zebra Global Liquidity Arbitrage Fund, Ltd. ("Off-shore Zebra Global Liquidity Arbitrage Fund"). Zebra Capital serves as the investment adviser for the Off-shore Zebra Global Liquidity Arbitrage Fund, which is an off-shore private investment company formed in Bermuda as an exempted mutual fund company.

#### Lyxor/Zebra Equity Fund Limited

Zebra Capital serves as Trading Advisor to the Lyxor/Zebra Equity Fund Limited (hereinafter "Lyxor Fund"), a public company organized under the laws of Jersey, Channel Islands, as an open-ended investment company with different classes that may be issued from time to time. The Manager for the Lyxor Fund is SG Hambros Fund Managers (Jersey) Limited, a company organized under the laws of Jersey, Channel Islands. The Sub-Manager for the Lyxor Fund is Lyxor Asset Management, a company organized under the laws of France.

The Manager and Sub-Manager acting on behalf of the Lyxor Fund have retained Zebra Capital as Trading Advisor to manage the investment portfolio of the Lyxor Fund. The investment portfolio of the Lyxor Fund is an investment pool of financial instruments and cash, as defined in the Offering Memorandum.

The rights and obligations of Zebra Capital with respect to the Lyxor Fund are set forth in an investment advisory agreement entered into by and between Zebra Capital, Lyxor Asset Management, and SG Hambros Fund Managers (Jersey) Limited. The investment policy and approach of the Lyxor Fund are described in detail in the Fund's Offering Memorandum, copies of which will be delivered to prospective investors of the Fund. The Lyxor Fund is currently listed and traded on the Dublin Stock Exchange.

### ***INVESTMENT COMPANIES***

Zebra Capital provides sub-advisory services to American Beacon Advisors, Inc. and Destra Capital Management, each an independent and unaffiliated registered investment adviser, for the following open-end registered investment companies:

- American Beacon Zebra Large Cap Equity Fund (AZLAX)
- American Beacon Zebra Small Cap Equity Fund (AZSAX)
  
- Destra US All-Cap L-Series Fund
- Destra International L-Series Fund
- Destra Global L-Series Fund

The funds' investment objectives are long term capital appreciation through investing primarily in equity securities, including small and large capitalization and global securities and to capture a liquidity premium among fundamentally strong, publicly-traded equities.

### ***MANAGED ACCOUNTS***

Zebra Capital provides professional advisory and sub-advisory services for institutional clients offering liquidity return and liquidity arbitrage strategies or other strategies based on a client's particular circumstances. A client investment policy is developed, and Zebra Capital creates and manages each client's portfolio consistent with the client's individual investment policy. Zebra Capital provides advisory services for managed accounts on a discretionary basis.

The Zebra Capital Funds, Investment Companies and Managed Accounts are collectively referred to in this Disclosure Brochure as "Zebra Capital Clients."

## **Item 5. Fees and Compensation**

### **ADVISORY FEES – ZEBRA CAPITAL FUNDS**

#### **Incentive Allocations**

For the Zebra Capital Funds, and under the relevant partnership or advisory agreements for each fund, the General Partner or Adviser is entitled to receive an incentive allocation from each limited partner's capital account (including that of each fund) for the fiscal quarter, typically, 20% of the new profits allocated to each limited partner for the quarter. All incentive allocations are subject to a "high water mark" provision, i.e., any prior losses allocated to a limited partner must be recouped before the general partner may receive an incentive allocation from each partner. In order to assure that each fund shareholder receives the benefit of its own high water mark, the limited partner interests of the fund in each partnership will be appropriately issued or allocated as to each fund shareholder. Prospective investors in each fund should review the terms of the relevant partnership agreement and offering documents for a complete statement of the terms of each fund's incentive allocation.

#### **Management Fees**

Under the relevant partnership or advisory agreements for each fund, the General Partner or Adviser is entitled to receive a monthly management fee from the capital account of each limited partner (including that of the fund itself) at a rate of 1.50% of the net assets per annum. The management fees is payable monthly in advance at the beginning of each month and is calculated on the basis of the amount of net assets in each capital account as of the end of the prior month (giving effect to capital additions and withdrawals). Prospective investors in any fund should review the terms of the partnership agreement and offering documents for a complete statement of the terms of a fund's management fee.

The Sub-Manager, Lyxor Asset Management, will pay to Zebra Capital on behalf of the Lyxor Fund an incentive fee calculated according to the Trading Advisory Agreement of 20%, multiplied by the net realized and unrealized appreciation of the investment portfolio (net of brokerage and third party expenses related to trading and the trading advisory fee) during each incentive period. The incentive fee is calculated and payable at the end of each quarter ending the last business day of February, May, August and November.

In addition to the incentive fee described above, Zebra Capital will be entitled to receive a management fee from the Sub-Manager, Lyxor Asset Management, on behalf of the Lyxor Fund. The management fee (computed on a weekly basis by the Sub-Manager) is equal to the market value of the investment portfolio multiplied by the management fee rate, 1.5%, and multiplied by the number of calendar days for the relevant period, divided by 365. The management fee is calculated and payable

at the end of each quarter ending the last business day of February, May, August and November.

#### ADVISORY FEES - INVESTMENT COMPANIES

Zebra Capital, as sub-adviser to the American Beacon Zebra Funds and the Destra Funds, is entitled to an annual sub-advisory fee based upon the assets under management of each fund calculated and accrued on a daily basis. Detailed information about each fund's fees, fee waivers and expenses is included and available in each fund's Prospectus, Summary Prospectus or Statement of Additional Information.

#### ADVISORY FEES - MANAGED ACCOUNTS

The annual fee for Zebra Capital management services for Managed Accounts will be charged as a percentage of assets under management based upon the particular investment strategy, (e.g., long-short, long only), amount of client assets, and nature of service provided.

Zebra Capital's annual fee schedules vary based upon a number of factors, including investment strategy (e.g., long, long-short, or others), amount of assets, client circumstances and nature of services, among others. The annual fee will be charged on a periodic basis in advance or in arrears based upon the total market value of a client's portfolio(s) at the end of the prior calendar month or quarter, as appropriate. A specific fee schedule will be determined and agreed upon with each managed account client and documented in the client investment management agreement.

Zebra Capital recommends a minimum of \$50 million of assets under management for a managed account relationship. Advisory fees may be negotiable under certain circumstances depending on the services provided, amount of assets and particular client circumstances, among other reasons as noted above.

#### **Additional Information**

**Zebra Capital Fund Offering Documents:** Investors and prospective investors of the Zebra Capital Funds are advised to review the offering documents for the Zebra Capital Funds for detailed information about the investment fund, investments and investment strategies, management and incentive fees, risks, professionals, and fees, among other information, for the particular fund.

**Management Fees:** Management Fees are calculated as of the beginning of each calendar quarter and will be equal to one-fourth of the fees summarized above or as described further in the offering documents for each Zebra Capital Fund on the value of each investor's interest as of the beginning of such quarter.

Management fees are payable in advance as of the beginning of each quarter. If an investor invests on any date that does not fall on the first business day of a quarter, the management fee will be prorated and charged at the time of such purchase, based upon



the actual number of days remaining in such partial quarter. If investor interests are redeemed on any date that does not fall on the last business day of a quarter, the management fee will be prorated and reduced at the time of such redemption, based on the actual number of days remaining in such partial quarter.

Incentive Fees: As described in detail in each fund's offering document, Zebra Capital may receive annual incentive fees in an amount and calculated according to the offering documents. Investors and prospective investors should review the offering documents for complete information regarding any incentive fees.

Incentive fees may create an incentive for Zebra Capital to cause the funds to make investments which may be riskier or more speculative than those which would be made under a different fee arrangement. The Investment Advisers Act of 1940 ("Advisers Act") and certain state laws restrict the payment of performance-based fees. However, Section 205 of the Advisers Act and SEC Rule 205-3 permit the payment of performance-based compensation to registered investment advisers under certain conditions. The offerings of the Zebra Capital Funds are structured to comply with the Advisers Act and this rule, and accordingly, Zebra Capital will not accept subscriptions from prospective investors whose subscription would cause the Zebra Capital Funds to not to qualify from incentive fees.

Modification of Fees for Certain Investors: The management fees and the incentive fees payable for investors who are affiliates or "knowledgeable employees" of Zebra Capital, members of the immediate families of such persons or other entities may be waived, reduced, or calculated differently than the management fee or incentive fee payable by other investors.

Side Letters: Zebra Capital reserves the right to waive or impose different fees or otherwise modify the fee arrangements of an existing limited partner with the consent of such limited partner.

As noted above, Zebra Capital's fees may be negotiable in certain circumstances. More specifically, Zebra Capital may enter into "side letters" with investors that lower or waive a fund's management and/or incentive fees. The side letters also may provide certain investors with more favorable liquidity terms, as well as more frequent and detailed reporting of the securities and other financial investments held by a fund.

Custodian; Direct Debiting of Fees: Assets of the Zebra Capital Funds will be maintained by one or more qualified custodians, in accounts in the name of the Funds. The custodian is authorized to pay the management fees and incentive fees immediately upon receipt of Zebra Capital's invoice, without prior notice to or consent of any investor. All account assets, transactions, and fees will be shown on the monthly or quarterly account statements provided by the custodian.

Withdrawals from a Fund: Investors in each Zebra Capital Fund are referred to the applicable offering documents for detailed information about withdrawals of assets from a fund. Typically, Zebra Capital requires prior written notice for withdrawal of all or a

portion of an investor's investment. Withdrawals are permitted only on or after a specific date. The Zebra Capital Funds may have lock-up provisions which may delay the first redemption date for a lock-up period.

Expenses: In consideration for the management fee, Zebra Capital provides to the Zebra Capital Funds with office space, utilities, administrative services and support including computer equipment and services, and secretarial, clerical and other personnel. Each Zebra Capital Fund bears its own expenses, as described in each fund's offering documents.

Valuation of Fund Holdings: The market value of investments held by the Zebra Capital Funds is determined as provided in each fund's offering documents. The Zebra Capital Funds have adopted detailed procedures relating to the valuation of their investments, and investors and prospective investors should review the relevant offering documents for additional information.

Generally, equity securities (including preferred stocks) that are listed on a securities exchange (including such securities when traded in the after-hours market) will be valued at their last sales prices on the date of determination on the primary securities exchange on which such securities will have traded on such date, or if trading in such securities on the primary securities exchange on which such securities shall have traded on such date was reported on the consolidated tape, their last sales prices on the consolidated tape (or, in the event that the date of determination is not a date upon which a securities exchange was open for trading, on the last prior date on which such securities exchange was so open not more than ten days prior to the date of determination).

Any incentive fees received will conform to the requirements of Section 205 of the Investment Advisers Act of 1940 (the "Advisers Act") and Rule 205-3 under the Advisers Act. Incentive fees may be lowered or waived for certain investors which include but are not limited to, significant investors and "knowledgeable employees" of Zebra Capital or its affiliates. Incentive fees are payable in arrears with respect to an investor's interest.

#### Separately Managed Accounts

As appropriate, Managed Account clients of Zebra Capital may be solicited to invest in one or more of the Zebra Capital Funds. Under these circumstances, the portion of the client's account invested in the fund(s) is excluded from the advisory fee calculation. With respect to the investment in any fund, however, the client will incur a pro rata share of fees and expenses, including a performance-based fee, as set forth in the applicable fund offering documents. Managed Account clients are under no obligation to invest in any of the Zebra Capital. Any investment in a fund will be made only after the client has received the proper offering and subscription documentation and has had ample opportunity to review such documentation and to ask questions, if necessary.

Because investment in these types of entities may involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability. While these individuals endeavor at all times to put the interest of the client first as part of Zebra Capital's fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest and may affect the judgment of the individuals making recommendations.

## **GENERAL INFORMATION**

Termination of Advisory Relationship: Investment management agreements for Zebra Capital Clients may be terminable upon the terms and as disclosed in the offering documents for each Fund, investment company or client agreement. Upon termination of an investment management agreement, any prepaid, unearned fees will be promptly refunded.

Mutual Fund Fees and Expenses: It is not anticipated that mutual funds or exchange-traded funds ("ETFs") will be typically included as Zebra Capital investment strategies. However, it is expected that money market mutual funds may be used to 'sweep' unused cash balances until they can be appropriately invested, and from time to time.

Zebra Capital may invest in shares of mutual funds or ETFs. Investors should recognize that all fees paid to Zebra Capital for investment management services are separate and distinct from the fees and expenses charged by mutual funds or ETFs to their shareholders. These fees and expenses are described in each mutual fund's or ETFs prospectus or summary disclosure.

These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Additionally, mutual funds may impose a contingent deferred sales charge ("CDSC") or redemption fee if shares are redeemed within a short time period, usually within 30, 60 or 90 days from the date of purchase. The CDSC or redemption fee is generally one percent.

Advisory Fees Generally: Similar advisory services may (or may not) be available from other investment advisers for similar or lower fees.

Personal Investments in Partnerships: Certain executive officers and/or other employees of Zebra Capital have invested or may invest a portion of their personal net worth in one or more of the Zebra Capital Funds.

Different Fee Schedules: Zebra Capital, and any affiliate's fees, including any performance fee, may be discounted or waived with respect to any investor for any particular period of time at the sole discretion of Zebra Capital or any general partner, as applicable. This discounted rate or waiver is not available to all or even most investors in the Zebra Capital Funds.

General: Prospective investors should refer to the appropriate offering and organizational documents for additional important information, terms, conditions and risks involved with investing in the Zebra Capital Funds.

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

### *Performance Based Fees*

With respect to any private investment fund, all incentive fees described above are based on the net realized and unrealized gains, income and appreciation of the respective account over a twelve-month period. In general, pursuant to the loss carry forward provision, if the account value depreciates in any such period, no incentive fee or profit reallocation may be earned or made in subsequent periods unless and until the account is restored to its former value (less the advisory fees previously paid and adjusting for new deposits into and withdrawals from the account). All incentive fees and profit reallocations are charged in compliance with all applicable requirements of Section 205(b) of the Investment Advisers Act of 1940, as amended, and Rule 205-3 promulgated by the Securities and Exchange Commission.

Clients should be aware that performance fee arrangements may create an incentive for an investment adviser to make investments that are more speculative than would otherwise be the case in the absence of a performance fee and that, under Zebra Capital's performance fee arrangements, the adviser may receive increased compensation with respect to unrealized appreciation as well as actual, realized capital gains.

Clients should also be aware that investment management fees lower than those offered by Zebra Capital may be available from other sources.

Zebra Capital also offers advisory and sub-advisory services to clients who do not pay performance-based fees, and therefore, we may have an incentive to favor performance-based fee accounts over non-performance-based fee accounts. However, in theory, we could also have an incentive to favor a Zebra Capital Fund paying higher aggregate performance-based fees than one paying less or a fund in which officers and employees of the firm may have more of their personal assets invested. Since we endeavor at all times to put the interests of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

1. We disclose to investors and prospective clients the existence of material conflicts of interest, including the potential for our firm and its employees to earn more compensation from some clients than others;
2. We collect, maintain and document accurate, complete and relevant investor background information to ensure that investment in the subscribed fund is appropriate for the investor's financial goals, objectives and risk tolerance and that the investor is qualified to invest;
3. We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all funds or other client accounts, subject to the fund's/client's underlying strategy, cash availability, availability of interests in the underlying funds and other appropriate considerations;

4. We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
5. We educate our employees regarding the responsibilities of a fiduciary, including the equitable treatment of all clients, regardless of the fee arrangement.

Performance-based fees will only be charged in accordance with the provisions of Rule 205-3 of the Investment Advisers Act of 1940 and/or applicable state regulations.

#### *Side-by-Side Management*

Side-by-side management refers to multiple client relationships where an adviser manages advisory client relationships and portfolios on a simultaneous basis for individuals, businesses, institutions and also mutual funds and/or hedge funds. In such circumstances, potential and actual conflicts of interest may arise by and between the clients and the mutual and hedge funds, e.g., performance fee arrangements as disclosed above in this Item 6.

### **Item 7. Types of Clients**

As disclosed in Item 1, Zebra Capital offers and provides investment management services primarily to pooled investment vehicles and sub-advisory services to registered investment companies and advisory and sub-advisory services to institutional and other clients on a separately managed account basis.

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

#### *Methods of Analysis & Investment Strategies*

The Zebra Liquidity Return and Zebra Liquidity Arbitrage strategies (“Zebra Liquidity Strategies”) seek to capture the commonly-known, liquidity premium in the public equity markets. The Zebra Global Liquidity Arbitrage Fund, in addition to capturing the liquidity premium, targets a beta neutral portfolio (+/- 0.2) and incorporates leverage (2.0-3.0:1).

The initial universe for each portfolio is based on capitalization. This prevents exposure to relative illiquidity in the smallest capitalization stocks, where absolute illiquidity would be a concern. Similarly, we may avoid concentrating in the upper end of distribution by excluding some of the larger, most liquid companies. The universe is further qualified by incorporating minimum share price, turnover, and sector constraints. The inclusion criteria for these components vary from country to country and are specific to each market.

The Zebra Liquidity Strategies employ a proprietary weighting algorithm which uses trading activity relative to company fundamentals as the principal measure of relative liquidity. This results in a long portfolio which invests more heavily in stocks

that have strong fundamentals but are traded less than stocks with similar fundamentals, while the short portfolio, if applicable, takes short positions in stocks that are over-traded relative to other stocks with similar fundamentals. We emphasize the portfolio's exposure to the liquidity style by ranking, and then selecting and weighting, candidate positions on our consolidated, relative liquidity composite.

The resulting positions have strong exposures to the liquidity effect and are balanced by fundamental information, broadening exposures while capturing the premium associated with relative changes in liquidity. The strategy can be viewed as pro-fundamental and anti-glamour in terms of the stocks it favors.

### *Risks of Loss*

#### General Risks

**Dependence upon Managing Members.** The success of the Zebra investment strategies critically depend upon the efforts of Messrs. Ibbotson and Schaffer, as Managing Members and principal officers of Zebra Capital. In the event that any of them cease to be responsible for client investments for any reason, and although other personnel may be available, the operations of the firm and investment strategies could be adversely affected. These individuals may have other business commitments from time to time as disclosed in Item 10.

**Dependence upon Individual Judgment and Skill.** Although Zebra Capital will be applying a quantitative model and methodology in its investment decision-making, even a quantitatively driven strategy can involve subjective factors and judgment. Accordingly, success of the investment strategies will be dependent on the investment skills and judgment of the Managing Members and Zebra Capital's other investment personnel.

#### [Risks Relating to Investment Strategy](#)

There are certain investment risks inherent in the Zebra Capital investment strategies. Such risks include the following:

*Model Risk Generally.* As with any model-driven or other quantitative strategy, investment performance will be subject generally to model risk, *i.e.*, the consequences of any inaccuracy, flaw or limitation of the model(s). Models are generally based on historic data, which may or may not be indicative of the future performance of the securities in question. With a quantitative investment approach, individual positions may move against the predictions of the model due to new information or factors not considered or duly weighted in the original system. Zebra Capital intends to continually engage in the evaluation and refinement of its investment models. There is no assurance, however, that the use of the strategy model will necessarily fulfill its intended objectives or assure investment success in future markets and environments.

*Mispricing Model Risks.* The Zebra Capital investment strategies and models are intended to identify stock mispricings, *i.e.*, securities which are generally undervalued (or, in the case of short positions, overvalued) by the marketplace, through systematic analysis of trading volume relative to earnings. Success of the strategy, therefore, necessarily depends

upon the market eventually correcting itself and recognizing actual value in the price of the security. However, for a broad variety of reasons, such price corrections may not necessarily occur or may occur over extended time frames. The portfolio positions may undergo significant shorter term declines and experience considerable price volatility during these periods. In addition, a portfolio's long and short positions may or may not be correlated to each other. When long and short positions are not correlated, it is possible to have investment losses in both the long and short sides of the portfolio.

*Directional Nature of Strategy.* Zebra Capital's investment strategies are intended to be directional in nature. At most or all times, portfolios' net exposure is expected to be 100% long. With a long weighted portfolio in a large number of stocks, and although the strategy is designed to outperform the markets, it can be expected that market advances or declines will produce similar appreciation or depreciation in shares of an investment fund. Although the portfolio will have some short positions, these positions will be taken for investment purposes and not with the intention of hedging the portfolio against market declines or other risks.

*Short Selling.* Short selling will be used to create short positions in stocks indicated by the Zebra Capital model(s) to be overvalued, generally on the basis of high trading volume relative to earnings. Zebra Capital expects that under our strategies, gross short exposure of the portfolios may range as high as 125%, and possibly higher. Short selling inherently involves certain additional risks. Selling securities short creates the risk of losing an amount greater than the initial investment in a relatively short period of time and the theoretically unlimited risk of an increase in the market price of the securities sold short. Short selling can involve significant borrowing and other costs which can reduce the profit or create losses in particular positions, thus affecting investment performance.

*Leverage; Interest Rates.* Zebra Capital employs leverage, in the form of margin borrowings, in constructing the investment fund investment portfolios. For example, funds' long positions may collateralize the financing of the funds' short positions. A funds' borrowings are expected to exceed that available under conventional margin limits (Regulation T) and may range as high as four-to-one. Moreover, there will be no fixed restriction on a fund's use of leverage. Accordingly, the leverage levels of any fund will exceed that of many other investment products. Risk of loss, portfolio volatility and the magnitude of possible gains are all generally increased by the use of leverage. Adverse market fluctuations may require the untimely liquidation of one or more investment positions. Interest costs of borrowings will be an expense of the funds and therefore both borrowing levels and fluctuations in interest rates will affect the operating results of the funds and portfolios.

*Foreign Securities.* A portion of a fund's or client's investments will be in foreign (non-U.S.) securities included in the MSCI World Index. Although the Index is limited to issuers in developed countries, there nonetheless may be certain risks in investing such securities. Investments in securities of non-U.S. issuers and securities denominated or whose prices are quoted in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, political or social disruption, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S.

companies. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect a fund's or client's performance.

*Other Securities.* Although a fund's portfolio will consist predominantly of common stocks or other common equity of numerous issuers, Zebra Capital will have authority to make a broad range of investments and may utilize a variety of other investments and instruments, such as preferred, hybrid and convertible securities, options, futures, synthetic securities, derivatives, investment vehicles or other instruments where deemed in furtherance of a fund's or client's investment strategy. Many of such securities and instruments can involve risks, such as increased exposure or volatility, greater than those present in conventional common stock portfolios.

*No Hedging.* Although Zebra Capital client portfolios will include both long and short positions, these positions will consist of overweighted and underweighted stocks, respectively, identified by the Zebra Capital's methodologies, and not pursuant to any hedging tool or strategy. Accordingly, it should not be assumed that losses in long positions will necessarily be offset by gains in short positions, and vice versa. Moreover, it is possible that portfolios could experience losses in both the long and short sides of its portfolio.

*General Investment Risk.* There is no guarantee that the models, approach and policies of the investment strategies will be successful. As with other investment strategies, the Managing Members' analytical models may indicate probabilities of relative price movements which are not necessary or inevitable or which may not necessarily occur in the future in a manner which will support a profitable investment strategy. Moreover, all securities investments risk the loss of capital. There can be no assurance that any strategy or investment will be profitable or that it will not incur losses. As noted above, Zebra Capital's strategies are long-oriented and directional and therefore can be expected to incur losses in periods of broad market declines. Many unforeseeable events, including, but not limited to, actions by various government agencies, and domestic and international economic and political developments, may cause sharp market fluctuations which could adversely affect a client's portfolio or performance. There can be no assurance that the Zebra Capital strategies or investment techniques employed by the firm will achieve a client's investment objective or that the performance will be profitable.

## **Item 9. Disciplinary Information**

Our firm and its Managing Members have no reportable disciplinary, regulatory or legal events to disclose.

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

### ***Managing Members***

Professor Ibbotson is a half-time Professor in Practice of Finance and faculty member of the Yale University School of Management and has academic responsibilities in addition to his professional responsibilities to Zebra Capital. In addition, Professor Ibbotson acts



as a Consultant in an advisory role to Morningstar Inc. which acquired Ibbotson Associates and Ibbotson Associates Advisors, LLC in March 2006. Ibbotson Associates Advisors, LLC was a registered investment adviser and Ibbotson Associates was a company founded by Professor Ibbotson in 1977 and a leading provider of asset allocation research and services. Professor Ibbotson also serves as a disinterested director and Chairman of the Audit Committee of Dimensional Investment Group Inc. ("DIG") and DFA Investment Dimensions Group Inc. ("DFAIDG"), registered investment companies for which Dimensional Fund Advisors Inc. serves as investment adviser.

Zebra Capital and its affiliated investment adviser, Zebra Advisors, LLC, have no ownership interests, participation or affiliation with these Ibbotson entities, Dimensional Fund Advisors Inc., DFA IDG or DIG, other than through Professor Ibbotson's Managing Member relationship with Zebra Capital and Zebra Advisors.

**Professor Ibbotson also serves as Managing Member of Zebra Advisors, LLC.**

Professor Ibbotson and the Zebra Capital investment professionals devote substantially all their efforts and time to the activities of Zebra Capital, the Zebra Capital Funds and the Firm's clients. Professor Ibbotson spends more than 60% of his time on Zebra Capital and Zebra Advisors matters.

These outside financial industry or academic activities present a conflict of interest to the extent Professor Ibbotson devotes his time and efforts to these activities, these outside activities will not require significant time and resources and will not detract from the responsibilities of this Managing Member or the management of the investments advised or sub-advised by Zebra Capital and Zebra Advisors

For these outside activities and affiliations, Professor Ibbotson receives separate and distinct compensation in his capacity as professor, officer or board member.

***Zebra Advisors, LLC***

Zebra Capital has an affiliated firm, Zebra Advisors, LLC ("Zebra Advisors"), a Delaware limited liability company and SEC registered investment adviser which provides investment management services for certain of the domestic Zebra Capital Funds as noted in Item 1 above.

**Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

Zebra Capital has adopted a Code of Ethics expressing the firm's commitment to and establishment of high standards of ethical conduct expected of advisory personnel and compliance with federal and state securities laws. Zebra Capital's Code of Ethics stresses that no person employed by Zebra Capital shall prefer his/her own interests to those of

advisory clients and includes the firm's Insider Trading Policy, which prohibits the misuse of material, non-public information. To supervise compliance with its Code of Ethics, Zebra Capital requires that anyone associated with the firm's advisory practice with access to advisory recommendations obtain prior approval of any personal securities transactions and provide initial and annual securities holdings reports and quarterly transaction reports of all reportable transactions, with certain exceptions, to the firm's Chief Compliance Officer. Zebra Capital's Code of Ethics also provides for sanctions when appropriate. Clients and prospective clients may obtain a copy of the firm's Code of Ethics upon written request by contacting Zebra Capital.

Zebra Capital also has policies and procedures intended to avoid any actual or potential conflicts of interest with the Zebra Capital Clients and any other clients of Zebra Capital, and intends to disclose and resolve such conflicts appropriately if they do occur. A basic tenet of such policies is that the interests of the clients are always placed first and foremost. Specifically, under such policies, any open orders for the purchase or sale of securities on behalf of Zebra Capital Clients will be executed prior to the execution of any transactions with respect to such securities by the Managing Members of Zebra Capital, any employees of Zebra Capital or for any account of Zebra Capital. All securities transactions of Zebra Capital's personnel will be reviewed by Mr. Schaffer.

As disclosed at Item 5 of this brochure, certain executive officers and/or other employees of Zebra Capital have invested or may invest a portion of their personal net worth in one or more of the Zebra Capital Funds.

It is the expressed policy of our firm that no person employed by us may appropriate an investment opportunity which may be appropriate for one or more of the funds without prior review and approval, particularly when there is limited availability for participation in the opportunity.

As these situations represent a conflict of interest, we have established the following additional restrictions in order to ensure its fiduciary responsibilities:

1. No officer or employee of our firm may prefer his or her own interest to that of an advisory client.
2. We maintain records of securities holdings and transactions for our firm and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by the Chief Compliance Officer.
3. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to disciplinary action up to and including termination.

## **Item 12. Brokerage Practices**

### ***Selection of Broker-Dealers***

Morgan Stanley & Company (“Morgan Stanley” or the “Prime Broker”) acts as prime broker for the Zebra Capital Funds. The Prime Broker will have certain administrative responsibilities, including the issuance of account statements and information with respect to securities transactions effected through other broker-dealers. Zebra Capital utilizes a number of broker-dealers, in addition to the Prime Broker, to effect transactions for the Zebra Capital Clients.

Broker-dealers, and electronic trading networks, will be selected based upon the amount of commission, quality of execution, expertise in particular markets, the reputation, experience and financial stability of the broker-dealer and trading networks and the quality of service, familiarity both with investment practices generally and the techniques employed by Zebra Capital, research and analytic services and clearing and settlement capabilities subject at all times to the principles of best execution and seeking execution venues that provide the best net execution. Zebra Capital may for certain relationships change its selection of a prime broker for the Zebra Capital Clients.

In addition to the foregoing principles of broker-dealer selection, Zebra Capital allocates a portion of the various Zebra Capital Clients' brokerage business to brokers on the basis of certain considerations, including the investment research provided by such firms, securities allocation, the availability of margin or other leverage, familiarity with the investment techniques employed by Zebra Capital, block positioning or other special execution capabilities or other services provided to the Zebra Capital Clients. In so allocating brokerage, the commissions the Zebra Capital Clients will pay to such brokers will not necessarily represent the lowest commission rate available, but will reflect Zebra Capital's evaluation of the research and other brokerage related services supplied by such brokers and which benefit the Zebra Capital Clients, either alone or together with the other clients of Zebra Capital.

### ***Research, Brokerage and Soft Dollars***

Zebra Capital receives and utilizes research services furnished by broker-dealers which may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, and access to research personnel. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions; trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations.

Research or brokerage services provided by broker-dealers may be utilized by Zebra Capital, or its affiliate, in connection with its investment services for other accounts.

Zebra Capital may also allocate brokerage on the basis of the broker's agreement to pay all or part certain research-related expenses. Zebra Capital intends to enter into such allocation arrangements, however, only where it determines that the commission charges are reasonable relative to the amount of expenses paid. In general, any and all brokerage allocations for the Zebra Capital Clients will be subject to principles of best execution and the other allocation policies described above as well as any restrictions imposed by applicable law.

Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment managers who use commission dollars of their advisory accounts to obtain investment research, brokerage and other services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities, provided that the amount of any increased commission costs on account of such research or other services is reasonable relative to the value of the services provided.

Zebra Capital will utilize allocations of commission dollars solely to pay for (i) certain expenses which would otherwise be borne by the Zebra Capital Clients, as described above (and which therefore do not involve the conflict of interest issues normally presented by "soft dollar" arrangements covered by Section 28 (e)) and/or (ii) products or services that qualify as "research and brokerage services", within the meaning of Section 28 (e), pursuant to arrangements that meet the other requirements of that Section. In addition, the advisory agreement of each respective Zebra Capital Client will contain provisions expressly authorizing the use of brokerage allocations and commissions for the purposes described above.

The research obtained through the respective Zebra Capital Clients' brokerage allocations, whether or not directly useful to it, may be useful to Zebra Capital in connection with services rendered to other accounts or entities managed by the Zebra Capital or its affiliate, Zebra Advisors. Similarly, research obtained by Zebra Capital, or its affiliates, for commissions paid to brokers in the course of managing other accounts may be useful to the Zebra Capital Clients. Zebra Capital, in considering the reasonableness of brokerage commissions paid by the Zebra Capital Clients, will not attempt to allocate, other than on a pro rata basis, the relative costs or benefits of research as between the various Zebra Capital Clients and its other clients or entities except in limited circumstances where appropriate.

### ***Trading Methodology***

Each of the clients that Zebra Capital manages has individual and distinct investment objectives as provided in each fund's offering documents or client's investment policy. Zebra Capital manages each client's portfolio consistent with each client's individual objectives, guidelines and restrictions. Each client portfolio is reviewed on an ongoing

basis and at least a daily basis. Zebra Capital utilizes proprietary algorithmic trading models for its trading activities. Algorithmic trading may be generally described as a process in which a computer program automatically determines trading decisions based on factors, such as liquidity, price, volume, historical and quantitative data, among others. Zebra Capital models analyze a security's trading pattern, other traders' aggressiveness and translates this data into orders that are entered into the market anonymously.

### ***Aggregation***

Zebra Capital, based on its proprietary models and algorithmic trading program, generally aggregates trades and rebalances Zebra Capital Client portfolios of similar investment objectives at the same time. Individual Zebra Capital Client portfolios may also be traded based upon portfolio money flows, as and when available or needed.

The aggregation of Zebra Capital Client transactions allows Zebra Capital to execute transactions in a more timely, equitable and efficient manner and to seek best execution and reduced overall trading and commission costs. Aggregated transactions typically receive an average share price and transactions costs are shared equally and on a pro-rated basis.

### ***Allocation***

When Zebra Capital Client transactions are not aggregated, the allocation of the securities purchased or sold, as well as expenses incurred in the transaction, will be made among the Zebra Capital Clients, and any other participating accounts or clients on a pro rata basis. Advisory clients may not necessarily be entitled to investment priority over other managed entities or accounts and may not participate in every transaction and/or investment opportunity. Zebra Capital endeavors to make all investment allocations in a manner that it considers to be the most fair and equitable to all managed entities and clients over time.

## **Item 13. Review of Accounts**

### ***Review of Accounts***

Zebra Capital may serve as investment adviser/general partner to various off-shore, domestic and master funds under what is commonly known as a "master-feeder" investment structure for the Zebra Capital Funds and Trading Advisor to the Lyxor/Zebra Equity Fund. Zebra Capital also provides advisory and sub-advisory services to investment companies and managed accounts. Zebra Capital and the Investment Committee, consisting of Roger Ibbotson, Peter Schaffer, Managing Members, and Eric Stokes, Portfolio Manager, will be responsible for determining investment strategies and directing the investment of the assets of the Zebra Capital Clients.

The Investment Committee has overall responsibility for the review of client portfolios and will review securities transactions and portfolio positions of the Zebra Capital Clients on an on-going and continuous basis. The Zebra Capital portfolios will also be subject to an overall review, no less frequently than monthly, by the Investment Committee, involving a review and analysis of all account holdings, performance to date, in light of each Zebra Capital Client's respective investment objectives, investment activity to date and an evaluation of any appropriate changes in each client's portfolio.

### ***Reports for Clients***

#### **ZEBRA CAPITAL FUNDS**

After the end of each fiscal year, each investor in the Zebra Capital Funds will be provided with audited financial information with respect to each Zebra Capital Fund's performance, as well as information regarding the status of the investor's capital account and certain tax reporting information. In addition, after the end of each fiscal month, each investor in the Zebra Capital Funds will be provided with unaudited financial information for such period with respect to the performance of the Zebra Capital Funds.

#### **MANAGED ACCOUNTS**

Zebra Capital provides reports on at least a quarterly basis which include portfolio positions, values and performance, among other things. Zebra Capital may also prepare and deliver to managed account clients additional information as Zebra Capital deems pertinent. Zebra Capital may provide additional information by special agreement with advisory/sub-advisory clients.

#### **INVESTMENT COMPANIES**

For those registered investment companies for which Zebra Capital provides sub-advisory services, Zebra Capital provides periodic reports of portfolio positions and performance to American Beacon Advisors and Destra Capital Management as the investment advisers of the investment companies.

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

Zebra Capital presently has several formal arrangements to directly or indirectly compensate persons for client referrals. These arrangements for referrals are with marketing entities for the introduction of prospective investors for the Zebra Capital Funds. Any such compensation arrangements will be fully disclosed to each client and investor consistent with applicable law. The client or investor will incur no additional costs or expenses as a result of any such referral arrangements. Any referral activities for the introduction of any managed account relationships to Zebra Capital will be in accordance with the SEC Cash Solicitation Rule (Rule 206(4)-3), if applicable.

## **Item 15. Custody**

Because we act as investment adviser and manager to the Zebra Capital Funds and because we may have an affiliated party who acts as general partner to other Zebra Funds, Zebra Capital is deemed to have custody of client assets under current applicable regulatory interpretations. As an adviser with custody, we seek to have each of the Zebra Capital Funds audited on an annual basis by an independent public accountant that is both registered with and subject to regular inspection by the Public Company Accounting Oversight Board (PCAOB). For each Zebra Capital Fund we seek to send the audited financials to each investor within 120 days of each fund's fiscal year end.

Managed Account clients receive monthly statements from their independent brokerage or bank qualified custodians and the Zebra Capital periodic reports. Clients are urged to carefully review and compare each statement in order to ensure that all account transactions, holdings and values are correct and current.

## **Item 16. Investment Discretion**

As general partner/manager, investment advisor/sub-advisor and trading advisor to the Zebra Capital Clients, Zebra Capital is granted the discretionary authority in the relevant organizational documents and/or investment management agreements to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid.

Reasonable limitations may be set in consultation with clients on our Firm's authority to determine the securities to be bought or sold and the amount of such securities by limiting total amount of money to be invested, the amount to be invested in any one security and the general level of risk that is acceptable to the client.

## **Item 17. Voting Client Securities & Legal Proceedings**

### ***Proxy Voting***

Zebra Capital has a Proxy Policy ("Zebra Capital Proxy Policy") which provides for the firm's proxy voting policy and practices and recognizes the firm's duty and responsibility for the voting of client proxies in the best interests of our clients.

The Investment Committee has overall responsibility for the firm's proxy voting policy and practices. Zebra Capital has retained Broadridge Financial Solutions, a financial services support firm and independent proxy service firm, to provide research, recommendations and proxy voting services according to the proxy voting guidelines stipulated for Zebra Capital client proxies. The Zebra Capital Proxy Policy provides procedures for the disclosure of conflicts of interest, and the retention of appropriate records, among other things. Additional information about the Zebra Capital Proxy Policy and related practices and how a client's proxies were voted are available upon written request to Zebra Capital.

### ***Legal Proceedings***

Clients should note that Zebra Capital may not advise or act upon any client's behalf in any legal proceedings involving companies whose securities are held or previously held in a client's portfolio including, but not limited to, class actions, bankruptcies or other legal proceedings.

### **Item 18. Financial Information**

As a matter of firm policy and practice, our firm will not charge or earn advisory fees in excess of \$1,200 more than six months in advance of the services rendered.

Also, our firm and its Managing Members have no financial events or proceedings to disclose.