

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

**Item 1 Cover Page**

Cephus Capital Management, LLC  
#1 Cascade, Upper Unit  
Fairfax, CA 94930

Telephone: (415) 785-3190

March 31, 2011

**This brochure provides information about the qualifications and business practices of Cephus Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (415) 785-3190. 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.**

**Cephus Capital Management, LLC is a registered investment adviser. Registration does not imply a certain level of skill or training.**

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

## Item 2 Material Changes

The United State Securities and Exchange Commission (“SEC”) adopted “Amendments to Form ADV” on July 28, 2010. This Brochure, dated March 31, 2011, is our new disclosure document prepared according to the SEC’s new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Consistent with the new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. Furthermore, we may provide other ongoing disclosure information about material changes as necessary, at any time without charge.

Currently, our Brochure may be requested by contacting us at (415) 785-3190. Again, additional information about Cephus Capital Management, LLC is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 Advisory Business**

##### *A. General Description of Advisory Firm*

Cephus Capital Management, LLC (“Cephus”) is an SEC-registered investment adviser with its principal place of business located in California. Cephus’ registration was effective June 14, 2004. The firm’s principal shareholder (i.e., those individuals and/or entities controlling 25% or more of this company) is Christopher C. Young, Managing Member.

##### *B. Description of Advisory Services (including any specializations)*

Cephus manages client accounts on a discretionary basis by providing continuous investment supervisory services and provides financial planning.

##### Investment Advisory Services

Cephus provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we establish a client's personal investment strategy and manage a portfolio based on that strategy. During the data-gathering process, we determine the client’s individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client’s prior investment history, as well as family composition and background.

Cephus manages advisory accounts on a discretionary basis. Account supervision is guided by, amongst other considerations discovered during the data-gathering process, the client's stated objectives (i.e., capital appreciation, growth, income, growth and income, or capital preservation).

##### Financial Planning

Cephus offers financial planning services to its clients. Financial planning involves an evaluation of a client’s current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. We gather required information through in-depth personal interviews. Information gathered may include the client's current financial status, tax status, future goals, objectives and attitudes towards risk. We carefully review information supplied by the client in preparing recommendations. Should the client choose to implement the recommendations made, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion. Financial Planning recommendations are typically not limited to any specific product or service offered by a broker dealer or insurance company. All recommendations are generally of a generic nature.

##### *C. Availability of Tailored Services for Individual Clients*

As discussed above, Cephus provides continuous advice and investment supervisory services to individually managed clients regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we create a client's personal investment strategy

and manage a portfolio that attempts to fit a client's individual objectives, time horizons, risk tolerance, and liquidity needs. Clients are responsible for keeping Cephus informed of any changes to his/her objectives, needs and goals.

Cephus manages these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., capital appreciation, growth, income, growth and income, or capital preservation). Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's established investment objectives, tolerance for risk, liquidity and suitability.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors. If the client wishes to have individual investments held in the portfolio or individual investments permanently excluded from the portfolio, they are required to provide such information to Cephus in writing, including the specific restrictions. Changes to such must be in writing to Cephus.

#### *D. Wrap Fees*

Cephus does not participate in wrap fee programs.

#### *E. Client Assets Under Management*

As of December 31, 2010, Cephus had approximately \$25 million of client assets under management. As of that date, Cephus managed 100% of the assets under management on a discretionary basis and 0% on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### *A. Advisory Fees and Compensation*

For clients whose assets are managed in-house, Cephus will receive a fee of up to 1.25% per annum, billed quarterly in advance. This fee is negotiated with each client, and is calculated as a percentage of the market value of assets under management as of the last business day of the previous calendar quarter. Cephus may negotiate a fixed fee.

Cephus, at its discretion, may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

For clients starting a relationship within the quarter, fees will be prorated and billed within five days of engagement based on the market value of the assets at the custodian. No adjustments to fees will be made for additions or withdrawals.

Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

### *B. How Fees Are Paid*

Our fees are billed quarterly, in advance, at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Fees will be debited from the account in accordance with the client authorization. The client will receive an invoice with the quarterly report that details the percentage charged, how the fee was calculated and the account or accounts that the fee was deducted from.

Client should be aware of their responsibility to verify the accuracy of the fee calculation submitted to the custodian by Cephus, as the custodian will not determine whether the fee has been properly calculated.

### *C. Other Fees and Expenses*

Cephus, in addition to other types of securities, may implement investment recommendations with mutual funds and/or ETFs (Exchange Traded Funds). These mutual funds and/or ETFs charge asset management fees that are charged indirectly to the client. All fees paid to Cephus for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other

things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the Brokerage Practices Section (Item 12) of this Brochure for additional information.

#### *D. Prepayment of Fees*

Our fees are billed quarterly, in advance, at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Cephus or client may terminate the Investment Advisory Agreement at any time by written notice as described in client's Investment Advisory Agreement. Any fees advanced and unearned shall be refunded to the client on a pro-rated basis (as of the effective date of termination described in the Investment Advisory Agreement).

If client does not receive Cephus' Form ADV, Part 2A at least 48 hours prior to execution of Investment Advisory Agreement, client has 5 business days from the date of execution of the Investment Advisory Agreement to terminate Cephus' services without penalty.

#### *E. Additional Compensation and Conflicts of Interest*

Cephus or any of Cephus' supervised persons does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Cephus does not charge performance-based fees.



**Item 7 Types of *Clients***

Cephus generally provides investment advisory services to individuals, trusts, pension and profit sharing plans.

Generally, the minimum dollar value of assets under management required to establish an investment advisory relationship is \$250,000.00. However, Cephus has discretion to waive the account minimum.

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

### *A. Methods of Analysis and Investment Strategies*

Cephus utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research, charting analysis, cyclical analysis or technical analytical tools and approaches using various information sources.

We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is under priced (indicating it may be a good time to buy) or over priced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

We look at past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company may under perform regardless of market movement. Cephus also reviews charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long a trend may last and when that trend might reverse. We also look at the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

When mutual funds or ETFs are considered in a client's portfolio, we look at the experience and track record of the manager of the fund in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a fund in an attempt to determine if there is significant overlap in the underlying investments held in the client's portfolio. We also monitor the funds in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holdings less suitable for the client's portfolio.

Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the information sources Cephus reviews, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

In regards to investment strategies used to implement investment advice, Cephus utilizes a variety of strategies over time based on the client's specific investment strategy, provided that such are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations. Implementation strategies include, but are not limited to, long-term purchases, short-term purchases and trading.

We may purchase securities with the idea of holding them in the client's account for a year or longer (long-term). Typically we employ this strategy when we believe the securities to be currently undervalued, and/or, we want exposure to a particular asset class over time, regardless of the current projection for this class. A risk associated with this strategy is that by holding the security long-term, we may not take advantages of short-term gains that could be profitable to a client. Also, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

We may purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. The risk to this strategy is that the anticipated price movement may not occur and we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, resulting in increased brokerage and other transaction-related costs. Frequent, short-term trading may also result in less favorable tax treatment of short-term capital gains.

We may purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings. Utilizing a trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize. Under these circumstances, we are left with few options, having a long-term investment in a security that was designed to be a short-term purchase, or the potential of having to take a loss. In addition, because this strategy involves more frequent trading than does a longer-term strategy, an increase in brokerage and other transaction-related costs should be expected. There is also the possibility for less favorable tax treatment of short-term capital gains.

#### *B. Other Associated Risks*

Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help you understand your tolerance for risk.

**Issuer-Specific Changes.** Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

**Growth Risk.** Growth stocks are inherently more volatile and risky than most securities. As a result, these securities can lose significant value in a very short period of time – sometimes in a

day or even minutes.

**Lack of Diversification.** Certain client accounts may not be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, client portfolios are subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

**Equity Securities.** The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and “growth” stocks can react differently from “value” stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

**Fixed-Income and Debt Securities.** Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a client’s portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio’s income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer’s ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

**Non-U.S. Securities.** Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

## Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

The following are disciplinary events relating to our firm and/or our management personnel:

A. On 9/5/08, a hedge fund client alleged breach of contract in 2007 in a civil action against Cephus (Adviser to the Hedge Fund) that was dismissed, pursuant to a settlement agreement. The firm settled on 2/9/09 the case for \$125,000.00. The court ordered no other sanctions. The entire action and all causes of action were dismissed with prejudice. It was found that the client signed all forms and understood all risks associated with the hedge fund. The firm did not charge a fee nor receive any compensation from the hedge fund. All principals of the firm invested in the same hedge fund and lost more money than the client.

B. On 9/30/09, a client sued in a civil proceeding for allegations that the portfolio manager used margin, excessive trading, and an unsuitable trading strategy. Cephus emphatically denies the claims made by the client and the matter is still pending.

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

### *A. Broker-Dealer Registration Status*

This Item is not applicable.

### *B. Commodities-Related Registration*

This Item is not applicable.

### *C. Material Relationships or Arrangements with Industry Participants*

Christopher C. Young is the President & CEO of Cooper Young & Associates Ltd. CYA Pensions is a TPA firm in Bermuda. Cephus has been appointed as Investment Manager of the CYA Registered Pension Plan Trust. While these duties are still in the investment advisory business, potential conflicts of interest could arise. Mr. Young will attempt to resolve all such conflicts in a manner that is generally fair to all clients. No accounts will be systematically favored and Mr. Young will follow a strict code of ethics with full disclosure.

### *D. Material Conflicts of Interest Relating to Other Investment Advisers*

This Item is not applicable.

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

### *A. Code of Ethics*

Cephus has adopted the CFA Institute Code of Ethics and standards of Professional Conduct to formalize the principles practiced by Cephus and its associated persons. This Code establishes rules of conduct for all employees of Cephus and is designed to, among other things; govern personal securities trading activities in the accounts of employees. The code is based upon the principal that Cephus and its employees owe a fiduciary duty to Cephus Capital Management's clients to conduct their affairs, including their personal securities transactions in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position within the firm and (iii) any actual or potential conflicts of interest any abuse of their position of trust and responsibility.

We will provide, at no cost, a copy of the Cephus Code of Ethics, to any client or prospective client upon written request to: Cephus Capital Management, LLC, P.O. Box 1060, Larkspur CA. 94977, Attention Code of Ethics Administrator.

### *B. Client Transactions in Securities where Adviser has a Material Financial Interest*

This Item is not applicable.

### *C. Investing in Securities Recommended to Clients*

From time to time, Cephus may cause clients to buy a security in which Cephus or an associated person has an ownership position, or Cephus or an associated person of Cephus may purchase a security of the same class as securities held in a client's account. It is Cephus' policy not to permit associated persons (or certain of their relatives) to trade in a manner that takes advantage of price movements caused by clients' transactions.

From time to time, trading by Cephus and its associated persons (and certain of their relatives) in particular securities may be restricted in recognition of impending investment decisions on behalf of clients. If transaction orders for a client and Cephus (and/or its associated persons and relatives) are not aggregated (see discussion under Item 12.), then transaction orders for Cephus and its associated persons will be the last orders filled. Cephus's members, officers and employees will be required to report all personal securities transactions at least quarterly to Cephus.

Cephus and its associated persons may purchase or sell specific securities for their own account based on personal investment considerations without regard to whether the purchase or sale of such security is appropriate for clients.

### *D. Conflicts of Interest Created by Contemporaneous Trading*

Please see Item 11.C.

## Item 12 Brokerage Practices

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

Cephus will primarily seek the best combination of price and execution. In evaluating whether a broker or dealer will provide "best execution," historical net prices (after commissions or other transaction-related compensation) on other transactions will be a principal factor, but other, related factors will also be relevant, including the following: execution, clearance and settlement capabilities of the broker or dealer generally and in connection with securities of the type to be bought or sold; the brokers or dealer's willingness to commit capital; its reliability and financial stability; its responsiveness to Cephus; its level of service to clients; the size of the transaction; and the market for the security. Cephus will not obligate itself to obtain the lowest commission or best net price for an account on any particular transactions. Based on the above, Cephus may trade through broker-dealers that charge fees that are higher than the lowest available fees. Further, broker-dealer fees may vary and be greater than those typical for similar investments if Cephus determines that the research, execution and other services rendered by a particular broker merit greater than typical fees.

Cephus generally recommends one or more custodians to facilitate brokerage execution where appropriate. There is no requirement that a client use such broker. Such recommendations will take into account a number of factors, including, but not limited to: transaction fees, custodial fees charged by the broker for holding securities for the client, commission rates, interest charges on debit balances and interest credits on credit balances, willingness of the broker dealer to provide additional products and/or services, quality of execution and recordkeeping, and reporting capabilities. The firm will attempt to minimize the total cost for all brokerage services paid by the client. However, it may be the case that the recommended broker charges a higher fee for a particular type of service (e.g., commission rates) than can be obtained from another broker. It may also be the case that the total costs of all services provided by the recommended broker may be higher than can be obtained at another broker if the firm determines in good faith that such total costs are reasonable in relation to the value of brokerage services provided by such broker, viewed in terms of Cephus' overall responsibilities to the client.

There is no direct affiliation between the investment advice given to clients and Cephus' recommendations. Cephus may receive at no cost, or a reduced cost to Cephus the following benefits depending on the custodian selected by client: free research, discounts on services, a dedicated service group and an account services manager dedicated to Cephus' accounts, access to a real time order matching system, ability to block client trades, electronic download of trades, access to an electronic interface with brokers' software, duplicate and batched client statements, confirmations and year-end summaries, the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements), a quarterly newsletter, access to mutual funds, ability to have loads waived for Cephus' clients who invest in certain mutual funds when certain conditions are met and maintained and the ability to have custody fees waived. The services provided by the custodian are a factor in the firm's suggestion that clients use that particular custodian, whose services will ordinarily include monthly and at least quarterly account statements to clients. The custodian also provides Cephus with computer software services whereby the firm can place orders and obtain up to date review of accounts.



### *B. Brokerage for Client Referrals*

This item is not applicable.

### *C. Directed Brokerage*

In some instances, because of a prior relationship between a client and one or more brokers, or for other reasons, a client may instruct Cephus to execute any or all securities transactions for their account with or through one or more brokers designated by the client. In such cases, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such brokers and the client is satisfied with such terms and conditions. Cephus has no responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. Such arrangements may impair Cephus' ability to obtain best execution for the client and clients may not benefit from aggregated orders. Cephus generally executes aggregated orders for non-directed clients before executing orders for clients that direct brokerage. The client recognizes that it may not obtain rates as low as it might otherwise obtain if Cephus had discretion to select broker/dealers other than those chosen by the client. Any client providing instructions to Cephus regarding direction of brokerage transactions must notify Cephus in writing if the client desires Cephus to cease executing transactions with or through any such broker-dealer.

In limited situations Cephus may accept written direction from a client regarding the use of a specific broker for effecting all or a portion of a transaction. In all other cases Cephus will determine the broker to be used and the commission rates at which transactions for client accounts will be effected, with the objective of attaining the most favorable price and market execution for each transaction. In addition to using brokers as "agents" and paying commissions, Cephus may effect transactions in securities directly from or to dealers acting as principal at prices that include markups or markdowns and may purchase from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

### *D. Order Aggregation*

Cephus performs investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by Cephus, some of which accounts may have similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they will be effected only when Cephus believes that to do so will be in the best interest of the affected accounts. When such concurrent authorizations occur, the objective will be to allocate the executions in a manner that is deemed equitable to the accounts involved. In cases where trading or investment restrictions are placed on a client's account, the firm may be precluded from aggregating that client's transaction with others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order.

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

Mr. Young (Managing Member and Chief Compliance Officer) reviews all accounts at least annually for overall adherence with the investment philosophy employed by Cephus and any specific requirements of the client.

Market activity and/or investment policy statements may trigger quarterly reviews of client accounts. Account holdings will also be reviewed at any time changing market conditions warrant or as dictated by changes to clients' specific situations as communicated to Cephus by clients.

Written investment reports are provided not less often than quarterly, containing at least current investment holdings, transaction summaries, and market values. The custodian of the client's assets issues these reports.

Cephus provides a quarterly report that includes an Asset Allocation report, a Portfolio Valuation Report, a Performance Report with index returns, the invoice detailing the quarterly fee, and a notes page with definitions and disclosures. We urge our clients to carefully compare brokerage account statements provided by the custodian against the information Cephus provides in these reports to ensure that all account transactions, holdings and values are correct and current.

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

### *A. Economic Benefits Received from Non-Clients for Providing Services to Clients*

Cephus may receive certain research or other products or services from broker-dealers in connection with giving advice to clients. These arrangements create an incentive for the firm to select or recommend broker-dealers based on the firm's interest in receiving such services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the firm on behalf of its clients. Please see Item 12 for further information.

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

Cephus may use solicitors to whom it will pay cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice will be disclosed in writing to the client and Cephus will comply with the other requirements of Rule 206(4)-3, under the Investment Advisers Act of 1940, as amended.

## Item 15 Custody

Cephus will not maintain possession or custody of the funds or securities of any client. Client funds will typically be deposited in a brokerage firm account. With client consent, the firm may cause advisory fees to be paid out of the client's account by the custodian. To the extent that the firm is deemed to have custody of client assets, Cephus will comply with the relevant requirements imposed on investment advisers that have custody of Client assets pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended.

As previously disclosed in the Fees and Compensation section in Item 5, Cephus directly debits advisory fees from client accounts. As part of the firm's billing process, the client's custodian is advised of the amount of the advisory fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period. Because the custodian does not calculate the amount of the advisory fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact Cephus directly if they believe that there may be an error in their account statements.

Cephus urges clients to compare the account statements they receive from the qualified custodian with those they receive from Cephus.

## Item 16 Investment Discretion

Cephus usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

When selecting securities and determining amounts, Cephus observes the investment policies, limitations and restrictions of the clients for which it advises.

## Item 17 Voting *Client* Securities

Cephus exercises proxy-voting authority over client securities for those clients electing Cephus to perform such tasks. Cephus has adopted and implemented written policies and procedures that are reasonably designed to ensure that Cephus votes proxies in the best interest of its clients. To the best of its ability and based on the knowledge it has about its clients, Cephus attempts to vote client proxies only in a manner that is in the clients' best interest. In general, Cephus will vote in a manner it believes will benefit shareholders. There may be times when refraining from voting a proxy is in the client's best interest, such as when Cephus determines that the cost of voting the proxy exceeds the expected benefit to the client.

Cephus currently does not have any material conflicts of interest with clients and does not represent the management or boards of public companies held in its clients' accounts. Cephus and its associated persons, however, may own issues held in client accounts (in an amount that is less than 1% of the market capitalization). Cephus and its associated persons are prohibited from participating in management or having board positions with the issuers whose public securities are held by its clients. In the event that a material conflict of interest exists between the client and Cephus, we will disclose in writing to the client and obtain their consent before voting.

Client may submit written requests for a complete copy of Cephus' proxy voting policies and procedures or information for how the requesting client's proxies were voted to Cephus Capital Management LLC, P.O. Box 1060, Larkspur CA, 94977, Attention Proxy Administrator.

**Item 18 Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about the Adviser's financial condition. Cephus 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.

**Item 19 Requirements for State-Registered Advisers**

This Item is not applicable.