



# DCI, LLC

## FORM ADV PART 2A Firm Brochure

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This brochure provides information about the qualifications and business practices of DCI, LLC, which will do business in California as DCI Investment Management, LLC ("DCI" or the "firm"). If you have any questions about the contents of this brochure, please contact us at 415-321-7423 or [skreiger@dcicom](mailto:skreiger@dcicom). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about DCI also 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. Our firm's CRD number is 134018.

DCI, LLC's registration with the SEC as an investment adviser is required based on the amount of assets under DCI, LLC's management. Such registration does not imply that DCI, LLC possesses any certain level of skill or training.



## Item 2 Material Changes

This Form ADV Part 2A Firm Brochure Amendment serves as the annual update and contains material changes since the last annual amendment, which was filed on March 29, 2013. Material changes include:

- Item 4: updated to include equities as a type of security in which DCI will transact on behalf of its client accounts
- Item 7: updated to include new type of client
- Item 8: updated risk disclosures
- Item 11: updated disclosure related to trade error policy
- Item 12: updated for additional information on investment allocation and trade aggregation



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#### Item 4 – Advisory Business

DCI, LLC (“DCI” or the “firm”) is registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser, with its principal place of business located in San Francisco, California.

DCI was established in 2004.

The firm has one principal shareholder (*i.e.*, an individual and/or entity controlling 25% or more of the firm):

- Stephen Kealhofer and Janet Ann Luck 1999 Family Trust. Stephen Kealhofer is the Managing Principal of DCI.

A detailed description of the advisory services DCI offers to its clients is below.

#### **INVESTMENT SUPERVISORY SERVICES ("ISS") PORTFOLIO MANAGEMENT**

DCI organizes and serves as the discretionary investment adviser to investment funds (“funds”), which may be organized inside or outside of the US as limited partnerships, trusts, companies or other entities, and to single client separate accounts (“separate accounts”). Each fund and separate account client’s investment objective is to seek to produce investment returns from taking positions that assume credit risk. DCI uses proprietary technology to produce model-driven portfolios.

DCI’s investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Corporate debt securities (other than commercial paper)
- Credit default swaps (“CDS”) and CDS index swaps
- Equities
- Futures and forward contracts
- Interest rate swaps
- United States government securities and the securities issued by other governments

Because some types of investments involve certain additional degrees of risk, they will only be implemented or recommended when consistent with the separate account or fund client’s investment objectives. Each fund’s prospectus or offering memorandum contains additional information about the fund, including a discussion of the fund’s investment strategy and discussion of certain significant risks of investing in the fund.

To assure that DCI’s initial determination of an appropriate portfolio remains suitable and that the separate account or fund client continues to be managed in a manner consistent with the agreed investment objectives, DCI will:

1. Conduct an ongoing and continuous review of each account to assure consistency with the strategy’s objectives;
2. Be reasonably available to consult with the client; and
3. Provide at least monthly reports, including, but not limited to, the performance of the



accounts and other risk measures. (See Item 13, “Review of Accounts,” below.)

#### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2013, DCI’s total regulatory assets under management (rounded to the nearest million dollars) were approximately \$5,585,000,000. DCI manages all client assets on a discretionary basis. DCI does not at this time advise any non-discretionary accounts.



## Item 5 - Fees and Compensation

### **INVESTMENT SUPERVISORY SERVICES ("ISS") PORTFOLIO MANAGEMENT FEES**

On a case-by-case basis, DCI determines an appropriate fee structure based on the size, complexity and investment objectives of the portfolio of the fund or separate account client. Fee arrangements may include a combination of a management fee and incentive fee, or may be solely limited to a management fee. The terms and conditions of the fee structure are mutually agreed upon prior to entering into an advisory agreement. Fees for funds are typically deducted from the assets of the fund by the fund's administrator. Fees for separate accounts are invoiced to the client.

#### *Account Management Fees:*

DCI typically charges a fee for account management that is calculated and paid as a percentage of the assets under management. The Account Management Fee is calculated at an annual rate not to exceed 3%. Fees are calculated on a monthly or quarterly basis and are payable in arrears based on the value of the account at the end of each billing period. The Account Management Fee is prorated for periods less than a full billing cycle and adjusted to cover any additional contributions made during that period.

#### *Account Incentive Fees:*

Certain separate accounts and funds pay DCI performance-based compensation ("Incentive Fees"). The Incentive Fee is calculated based on a percentage of the net profits of the account(s) at a frequency mutually agreed upon with the client.

DCI's incentive fee is typically 10-20% of the net profits above the account's previous "high water mark". To the extent that the amount of account appreciation is less than the high water mark, there is a loss carry-forward allocation that must be recouped before DCI is entitled to a performance-based fee.

Clients who elect to terminate their contracts will be charged a performance-based fee based on the performance of the account for the measuring period going back from the termination date and pro-rated from the date on which the performance-based fee was last assessed, or as otherwise specifically agreed with the client.

In measuring a separate account's or fund's assets for the calculation of performance-based fees, for securities for which market quotations are readily available, DCI includes the unrealized gains as well as unrealized losses in the client's account. The ultimate calculation of account Incentive Fees is determined independent of DCI by the client or its custodian or administrator.

A client or investor should understand the performance-based fee method of compensation and its risks prior to entering into a management contract with us or purchasing shares in a fund we manage.

**PERFORMANCE-BASED FEES WILL ONLY BE CHARGED IN ACCORDANCE WITH THE**



PROVISIONS OF RULE 205-3 UNDER THE INVESTMENT ADVISERS ACT OF 1940, APPLICABLE SEC GUIDANCE, AND/OR APPLICABLE STATE REGULATIONS. THE FEES WILL NOT BE CHARGED TO ANY CLIENT RESIDING IN A STATE IN WHICH SUCH FEES ARE PROHIBITED.

*Limited Negotiability of Advisory Fees:*

Although DCI has established the aforementioned fee ranges, DCI retains the discretion to negotiate alternative fees on a client-by-client basis. Client circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, and anticipated future additional assets, related accounts, portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between DCI and each client.

**General Information**

*Termination of the Advisory Relationship:*

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice, or as otherwise explicitly agreed with the client.

*Advisory Fees in General:*

Clients should note that similar advisory services may be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Additional Compensation and Conflicts of Interest**

Neither DCI nor any of its supervised persons accept compensation for the sale of securities or other investment products.



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

### **PERFORMANCE-BASED FEES**

As discussed in Item 5 of this Brochure, DCI may charge a performance-based fee to certain separate account and fund clients. Such a performance-based fee is calculated based on a share of the realized and unrealized capital gains as well as unrealized capital losses of the assets of the client. To qualify for a performance-based fee arrangement, a client (or fund investor, as applicable) must either demonstrate a net worth of at least \$2,000,000, excluding the value of the investor's primary residence and certain associated debt or have \$1,000,000 in assets under DCI's management. In limited circumstances, certain DCI principals have an ownership or economic interest in certain private funds DCI manages.

DCI recognizes that such arrangements may create potential conflicts of interest. Moreover, clients should be aware that a performance-based fee arrangement may create an incentive for DCI to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

Furthermore, as DCI also has clients who do not pay performance-based fees, it may have an incentive to favor accounts that do pay such fees because compensation DCI receives from these clients is more directly tied to the performance of their accounts.

DCI has adopted policies and procedures to address these conflicts of interest.

### **Potential Conflicts Among Advisory Clients**

#### *Investment Allocations:*

Allocations of aggregated trades, particularly trades that are only partially filled as a result of the limited availability of desired securities, could be viewed as raising a potential conflict of interest, as DCI may have an incentive to allocate investments that are expected to increase more in value to certain advisory clients, such as private investment funds that provide DCI with performance-based fees, or in which DCI personnel have an ownership or economic interest. To address this potential conflict of interest, all allocations of investment opportunities and allocations of aggregated trades for client accounts are required to be made in accordance with DCI's Investment Allocation Policy, which is summarized below in Item 12 – Brokerage Practices, Trade Aggregation. In addition, DCI has established a Best Execution Committee that conducts periodic supervisory reviews of the firm's trading practices, in part, to review for issues related to allocation disparities between client accounts. In addition, the firm's Chief Compliance Officer conducts trade activity reviews.





#### *Cross-Trades:*

Despite their potential benefits to clients, cross-trades among advisory clients of DCI can be effected in a manner perceived to favor one advisory client over another. DCI could be viewed, for example, as crossing trades that are expected to increase in value from an advisory account to a private investment fund in order to benefit itself as a result of the ownership or economic interest, including the existence of a performance-based fee, of DCI, its affiliates and/or investment professionals in the private investment fund. To address the potential conflict of interest, cross-trades are required to comply with DCI's Cross Trade Policy, which requires that the Chief Compliance Officer or the Best Execution Committee approve any cross-trades, in part, to ensure that any such cross-trade is consistent with DCI's fiduciary obligations to act in the best interests of its clients. In addition, cross trade transactions are permissible only if allowed by a client account's restrictions and applicable regulation. Any cross-trade effectuated will be reported at the quarterly meeting of the Best Execution Committee.



## Item 7 - Types of Clients

DCI provides advisory services to the following types of clients:

- Other pooled investment vehicles
- Institutional clients
- Sovereign wealth funds
- Pension plans
- Investment companies registered under the Investment Company Act of 1940 (on a sub-advisory basis)

### *Customer Identification Program Notice:*

To help fight the funding of terrorism and money laundering activities, U.S. federal law requires financial institutions, including DCI, to obtain, verify and record information that identifies each person who opens an account on behalf of an investor. This means that DCI may request that a prospective client provide its name, address, date of birth, social security or other government-issued identification number and other information that will allow DCI to identify the client. DCI may also ask for identifying documents so that it can verify identity and may also verify identity through non-documentary means, such as through the comparison of the information provided with information provided by public databases or other sources. If the prospective client refuses to provide the information requested, DCI may not be able to open an account.



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

### **METHODS OF ANALYSIS**

DCI uses the following methods of analysis in formulating investment advice and/or managing client assets:

#### *Fundamental Analysis:*

DCI targets superior risk-adjusted returns from portfolios of corporate credit assets, derivatives and equities through active diversification and the selection of positions with good return/risk profiles. The principal driver of DCI's strategies is a default probability model that incorporates fundamental balance sheet information, real time information embedded in equity and options markets, and a database of historical defaults. DCI uses its technology to produce timely risk measures for investments that are monitored in "real-time", providing early warning capabilities and a large investment universe from which to create portfolios.

In the long-only portfolios, the model selects relatively low default probability, high return-to-risk positions that are expected to outperform the market. DCI actively diversifies the portfolio in an attempt to mitigate idiosyncratic risk. In portfolios that use long and short exposures, the model selects undervalued and overvalued credits to go long and short, respectively.

#### *Risks for all forms of analysis:*

DCI's securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, 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.

### **INVESTMENT STRATEGIES**

As stated above, the underlying strategy for all DCI client accounts is to seek to achieve risk-adjusted returns from portfolios of corporate credit assets, derivatives and equities through active diversification and the selection of positions with good return/risk profiles. There are a number of risks inherent in the methods by which DCI deploys its strategy, including:

#### *Material Risks:*

*Availability of and Ability to Acquire Suitable Investments:* While DCI believes that many attractive investments of the type in which a client may invest are currently available and can be identified, there can be no assurance that such investments will be available when a client account commences investment operations, or that available investments will meet a client's investment criteria. Furthermore, DCI, on behalf of a client account, may be unable to find a sufficient number of attractive investment opportunities to meet a client's investment objective.

*Credit Default Swaps:* Certain client accounts may enter into credit default swap ("CDS") agreements as either the buyer or seller of CDS. DCI clients and each of its trading



counterparties is an adherent to the 2009 ISDA Auction Settlement Supplement. In the event of default of a CDS reference entity, as determined by the ISDA sanctioned Credit Derivatives Determinations Committee, the seller must make a cash settlement payment to the buyer in an amount determined via an ISDA sanctioned auction settlement determination for the reference entities' securities. Credit default swaps may involve greater risks than if the client account had invested in the reference obligation directly. In addition to general market risks, credit default swaps are may be subject to illiquidity risk, counterparty risk and credit risks.

*Interest Rate Swaps:* Interest rate swap agreements are a specialized form of a swap agreement, used to obtain or preserve a desired return or spread at a lower cost than through a direct investment in an instrument that yields the desired return or spread. In a standard interest rate swap transaction, two parties agree to exchange their respective commitments to pay fixed or floating rates on a predetermined notional amount. The swap agreement notional amount is the predetermined basis for calculating the obligations that the swap counterparties have agreed to exchange. Under most interest rate swap agreements, the obligations of the parties are exchanged on a net basis. The two payment streams are netted out, with each party receiving or paying, as the case may be, only the net amount of the two payments.

*Credit Risk:* Credit risk is the risk that the issuer of a debt security will not be able to pay principal and interest when due. Rating agencies assign credit ratings to certain debt securities to indicate their credit risk, but these ratings are not a guarantee of any specific level of credit risk. The price of a debt security will generally fall if the issuer defaults on its obligation to pay principal or interest, the rating agencies downgrade the issuer's credit rating, or other news affects the market's perception of the issuer's credit risk.

*Credit Rating Agencies:* Ratings assigned by Moody's, Standard & Poor's or Fitch reflect only the views of those agencies and may be subject to certain biases and conflicts of interest. Additionally, no assurance can be given that the ratings assigned to any particular security will not be withdrawn or revised downward in the future.

*Debt Securities, Fixed Income Securities:* DCI, on behalf of its client accounts, may invest in debt securities, bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities; bank debt; and commercial paper, some of which may have speculative characteristics. Debt and fixed income securities pay fixed, variable or floating rates of interest. The value of debt and fixed income securities in which the clients invest will change in response to fluctuations in interest rates. In addition, the value of certain debt and fixed income securities and bank loans can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Debt and fixed income securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (e.g., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (e.g., market risk). A major economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments.



*Derivative/Counterparty Risk:* DCI's strategies may involve entering into interest rate swaps and credit default swaps ("swap agreements"). Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a day to many years. In a standard swap transaction, two parties agree to exchange the returns earned on specific assets, such as the return on, or increase in value of, a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. A swap contract may not be assigned without the consent of the counterparty, and may result in losses in the event of a default or bankruptcy of the counterparty. Swap agreements are traded in the over-the-counter market and may be considered to be illiquid. In addition, many swaps will be centrally cleared and exchange traded under the provisions of the Dodd-Frank Act and the European Market Infrastructure Regulation. Such swaps will be subject to the same risks as future contracts, as discussed herein.

The funds or separate accounts will enter into swap agreements only if the claims-paying ability of the other party or its guarantor is considered to be investment grade by the DCI and where an ISDA Agreement and Collateral Support Annex is in place between the fund or separate account and the counterparty. In an effort to reduce counterparty risk, we will only transact Swap Agreements on a collateralized basis. Nonetheless, there is risk that a client's swap counterparty will default on its obligations under a swap agreement, which could mean that the client will lose any appreciation in the value of the swap and incur costs in implementing a new swap agreement.

*Equity Securities:* DCI, on behalf of certain client accounts, may buy and sell equity securities. The owner of an equity security typically receives an ownership interest in the issuing company, as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares as traded in the public trading market for such shares. Publicly traded equity securities are subject to equity market risk. This is the risk that stock prices will fluctuate and can decline and reduce the value of the client's portfolio. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and such fluctuations can be pronounced. The equity securities acquired may fail to appreciate and may decline in value or become worthless.

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries selected for a DCI client's portfolios or the securities market as a whole, such as changes in economic or political conditions.

Equity securities generally take the form of common stock or preferred stock. Common stockholders are generally subordinated in right of payment, both with respect to dividends and distributions in liquidation, to holders of preferred stock and other senior equity securities and debt obligations and creditors of the issuer. Dividends on common stocks are not fixed but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which the fund or separate account may invest will declare



dividends in the future or that if declared they will remain at those levels or increase over time. Preferred stockholders typically receive greater dividends but may receive less appreciation than common stockholders and may have lesser or greater voting rights as well. Equity securities may also include convertible securities, warrants or rights. Convertible securities typically are debt securities or preferred stocks which are convertible into common stock after certain time periods or under certain circumstances. Warrants or rights give the holder the right to purchase a common stock at a given time for a specified price.

While equity securities have historically outperformed other types of investments over the long term, the prices of equity securities are generally subject to greater volatility than the prices of, for example, high-quality fixed income instruments. These price movements may result from factors affecting individual companies or industries or the securities market as a whole. A slower growth or recessionary economic environment could have an adverse effect on the price of the various equity securities held by the client account.

*Futures Risks:* In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent DCI from promptly liquidating unfavorable positions and subject the client to substantial losses. In addition, the client may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that a client engages in futures and options contract trading and the futures commission merchants with whom the client maintains accounts fail to so segregate the client's assets, the client will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. The futures commission merchant ("FCM") may hold margin posted in connection with those contracts and that margin may be rehypothecated (or re-pledged) by the FCM and lost or its return delayed as a result of a default of the FCM due to certain futures exchange rules that permit the exchange to cover shortfalls in the margin held by one customer with the margin held by the other customers of the FCM. In certain circumstances, the client might be able to recover, even with respect to property specifically traceable to the client, only a *pro rata* share of all property available for distribution to a bankrupt FCM's customers.

*Leverage Risk:* may result from certain transactions, including the use of derivatives, borrowing and reverse repurchase agreements. Leverage may exaggerate the effect of a change in the value of an account's portfolio securities, causing an account to be more volatile than if leverage was not used.





*Interest Rates:* The values of some or all of a client account's investments may change in response to movements in interest rates. If rates rise, the values of debt securities generally fall. The longer the average duration of a fund's or separate account's investment portfolio, the greater the change in value. Duration is a measure of the expected life of a fixed income security that was developed as a more precise alternative to the concept of "term to maturity."

*Investment Grade Debt Securities:* Although debt securities rated in the BBB or equivalent category are commonly referred to as investment grade, they may have speculative characteristics. Such investments may, under certain circumstances, lead to a greater degree of fluctuation in the Net Asset Value of the client account than if the client only invested in higher-rated investment grade securities with similar maturities. In addition, changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher grade bonds.

*Maturity Risk:* Interest rate risk will generally affect the price of a debt security more if the security has a longer maturity. Debt securities with longer maturities will therefore be more volatile than other fixed income securities with shorter maturities. Conversely, debt securities with shorter maturities will be less volatile but generally provide lower returns than debt securities with longer maturities. The average maturity of debt security investments will affect the volatility of that client's value.

*Non-Investment Grade Debt Securities:* DCI, on behalf of certain client accounts, may invest in debt securities that are rated below investment grade (such as BB or lower by Standard & Poor's Corporation and/or Ba or lower by Moody's Investors Service, Inc.) or deemed to be below investment grade by DCI in its sole discretion. These securities, often referred to as high yield debt securities, are considered speculative and, while generally offering greater income than investments in higher quality securities, involve greater risk of loss of principal and income, including the possibility of default or bankruptcy of the issuers of such securities, especially during periods of economic uncertainty or change. These lower quality bonds tend to be affected by economic changes and short-term corporate and industry developments, as well as public perception of those changes and developments, to a greater extent than higher quality securities, which react primarily to fluctuations in the general level of interest rates.

*Prepayment Risk:* The frequency at which prepayments occur are affected by a variety of factors, including interest rates and spreads, as well as economic, demographic, tax, social, legal and other factors. Generally, prepayments occur on fixed rate obligations when prevailing interest rates fall below coupon rates and on floating rate obligations when spreads narrow. There are two adverse effects of prepayments: (1) investments may experience outright losses and (2) investments may underperform relative to hedges that may have been constructed for these markets, industries or securities.

*Prime Broker Risk:* Certain DCI client accounts may utilize a prime broker. With respect to the account's right to the return of assets equivalent to investments of the account which the prime broker borrows, lends or otherwise uses for its own purposes, the account will rank as one of the prime broker's unsecured creditors and, in the event of the insolvency of the prime broker, the account may not be able to recover such equivalent assets in full.



*Redemption Risk:* Large redemptions of shares in a DCI client fund might result in the fund being forced to sell assets at a time and price at which it would normally prefer not to dispose of those assets.

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

*Share Currency Designation Risk:* Certain client funds may offer classes of shares designated in a currency other than the base currency of the fund. Changes in the exchange rate between the base currency and such designated currency may lead to a depreciation of the value of such shares as expressed in the designated currency. As permitted by the fund's governing documents, DCI may attempt to mitigate this risk by using financial instruments. This may substantially limit shareholders of the relevant class from benefiting if the designated currency falls against the base currency and/or the currency/currencies in which the assets of the fund are denominated. In such circumstances shareholders of the relevant class of shares of the fund may be exposed to fluctuations in the net asset value per share reflecting the gains/losses on and the costs of the relevant financial instruments. Financial instruments used to implement such strategies shall be assets/liabilities of the fund as a whole. However, the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant class of shares of the fund.

*Securities Lending and Borrowing:* Subject to applicable legal requirements, DCI client accounts may lend securities to securities brokers and other institutions, or borrow securities from securities brokers or other institutions to effect short sales. If the other party becomes insolvent or bankrupt, the account could experience delays and costs in recovering payment or the securities. If, in the meantime, the value of securities changes, an account could suffer more losses.

As with any extensions of credit, there are risks of delay and recovery. Should the borrower of securities fail financially or default in any of its obligations under any securities lending transaction, the collateral provided in connection with such transaction will be called upon. The value of the collateral will be maintained to equal or exceed the value of the securities transferred. However there is a risk that the value of the collateral may fall below the value of the securities transferred.

*Short Selling Risk:* DCI may engage in short sale transactions for certain client accounts. These accounts will incur a loss as a result of a short sale if the price of the security sold short increases in value between the date of the short sale and the date on which the account purchases the security to replace the borrowed security. In addition, a lender may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, and the account may have to buy the securities sold short at an unfavorable price. If this occurs, any anticipated gain to the account may be reduced or eliminated or the short sale may result in a loss. The account's losses are potentially unlimited in a short sale transaction. Short sales are speculative transactions and involve special risks, including greater reliance on the adviser's ability to accurately anticipate the future value of a security. Furthermore, taking short positions in securities results in a form of leverage which may cause an account to be more volatile.





*Trading Derivative Instruments Involves Credit Risk:* DCI, on behalf of certain client accounts, may buy and sell derivative securities in “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes a client to the risk that a counterparty will not settle a transaction in accordance with its terms because the counterparty has a credit or liquidity problem. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide) because such markets may lack the established rules and procedures for settlement of disputes among market participants available in “exchange-based” markets. These problems may cause a client to suffer loss due to adverse market movements while replacement transactions are executed or otherwise. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the client has concentrated its transactions with a single or small group of counterparties.

The risks described above are not a complete list of all risks associated with the described strategies, and they are not listed in order of importance.

Investors in the funds should refer to the detailed risk disclosures in the fund’s offering documents.



### Item 9 - Disciplinary Information

Item 9 is not applicable – DCI does not have any legal or disciplinary events on behalf of itself or its employees that would be material to a client's or prospective client's evaluation of DCI's advisory business or the integrity of DCI's management.



## Item 10 - Other Financial Industry Activities and Affiliations

### **OTHER POOLED INVESTMENT VEHICLE(S):**

Management personnel of DCI also may be managing members of limited liability companies ("LLCs") and/or general partners of limited partnerships ("LPs") formed for investment purposes and/or serve on the Board of Directors of funds for which DCI acts as the investment manager. As appropriate, DCI's advisory clients may be solicited to invest assets in such LLCs, LPs and/or funds. DCI has a conflict of interest in soliciting client investments into such funds because DCI earns a fee for the management of such funds. DCI does not invest client assets that it manages into funds it manages.

DCI has a wholly owned subsidiary, DCI Asset Management Ireland Limited. ("DCIAM"), that was established to provide management services to funds that are part of unit trusts domiciled in Ireland. DCI and DCIAM have entered into an investment management agreement with regard to one fund, DCI Alternative Fund, which is domiciled in Ireland. One principal of DCI serves on the Board of Directors of DCIAM but receives no compensation for his service.

Additionally, DCI GP, LLC, which is owned by DCI, serves as the general partner of DCI Market Neutral Fund, L.P., a California limited partnership, and DCI Long Short Equity Fund, L.P., a Delaware limited partnership. DCI GP, LLC and DCI have entered into an investment management agreement under which DCI serves as the investment manager for both of these funds.

Because investments 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.

The affiliated entities references above are also disclosed on Schedule D of Form ADV, Part 1 at Item 7.B. Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.

Clients interested in investing in a specific partnership/company/fund should refer to the partnership's/ company's/fund's private placement memorandum or other disclosure documents for more information specific to the investment.



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

### *Code of Ethics:*

The following is a summary of DCI's Code of Ethics, which has been adopted by DCI in compliance with Rule 204A-1 under the Advisers Act, as amended. A copy of DCI's Code of Ethics is available to any advisory clients or prospective clients, without charge, upon request by contacting the Chief Compliance Officer, DCI, LLC, 201 Spear Street, Suite 250, San Francisco, CA 94105, or calling 415-321-7423, or emailing [skreiger@dcicom](mailto:skreiger@dcicom).

DCI's Code of Ethics sets forth the highest ethical standards of business conduct required of its employees, including compliance with applicable federal securities laws.

DCI and its personnel owe a duty of loyalty, fairness and good faith toward our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

The Code of Ethics applies to all employees of DCI and any other person that the Chief Compliance Officer deems appropriate.

### *Personal Trading:*

The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of DCI's employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Among other provisions, the Code of Ethics requires that employees receive prior approval for any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. In addition, the Code of Ethics requires firm personnel to pre-clear personal transactions in credit default swaps or corporate bonds, including convertible bonds, since such instruments are regularly traded on behalf of client accounts. DCI will generally not approve transactions involving credit default swaps or corporate bonds. These requirements apply to employee accounts as well as generally accounts of employee's immediate family members and any account for which the employee has a beneficial interest, controls or exercises investment discretion.

The Code of Ethics also includes policies and procedures for the review of quarterly securities transactions reports, as well as initial and annual securities holdings reports that must be submitted by DCI's access persons.

The Code of Ethics also prohibits personnel from recommending any securities transaction for a client account without first disclosing his or her interest, if any, in such securities or issuer thereof.

DCI's Code of Ethics also provides oversight, enforcement and recordkeeping provisions.



#### *Insider Trading:*

DCI's Code of Ethics further includes the firm's policy prohibiting trading securities while in possession of material, non-public information, or improperly communicating material, nonpublic information to others. While DCI does not believe that it has any particular access to non-public information, all employees are provided ongoing training that such information may not be used in a personal or professional capacity.

#### *Trade Errors:*

Potential material conflicts of interest may also arise if a trade error occurs in a client account. When correcting these errors, conflicts of interest between DCI and its advisory clients may arise as decisions are made on whether to attempt to cancel, reverse or reallocate the erroneous trade. In order to address these conflicts, DCI has adopted a Trade Error Policy to assure that trade errors are handled promptly and appropriately and that any action taken to remedy an error places the interest of the client ahead of DCI's interest.

Under the Trade Error Policy, a trade error will have occurred if DCI has not met the applicable standard of care in the placement or execution of a transaction for a client account. The applicable standard of care derives from DCI's advisory contract and course of conduct with respect to the relevant client; in many cases this standard will be one of reasonable care based on industry practices. A trade error would not occur in the context of an investment decision but rather only if the execution of the investment decision was inconsistent with that decision. There may also be circumstances under which the modeling and hedging systems and tools employed by DCI to make investment decisions on behalf of client accounts cause DCI to make erroneous investment decisions that are then effected through trading activity. Erroneous investment decisions attributable to modeling and hedging-related issuers are not trade errors, but if they occur because DCI has not met the standard of care owed to the relevant client or clients, the error could present similar issues.

The Trade Error Policy requires that DCI employees who believe that a trade error has occurred to promptly report the issue to the firm's Chief Compliance Officer. The Chief Compliance will investigate any potential trade error to determine whether there has been a trade error. If, in the view of the Chief Compliance Officer, there has in fact been a trade error, the error will be corrected, documented and reported as necessary. DCI's Trade Error Policy requires that any action taken to remedy a trade error place the interest of a client ahead of DCI's interest.

#### *Employee Co-Investment:*

In limited circumstances, certain DCI principals have an ownership or economic interest in certain private funds DCI manages. As discussed further below, to address this potential conflict of interest, DCI has adopted an Investment Allocation Policy that is designed to assure that buy and sell opportunities are allocated fairly among clients and that, over time, all clients are treated equitably. In addition, the firm's Code of Ethics requires that DCI and its employees treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits the firm or its employees from favoring any particular advisory account as a result of the ownership or economic interest of DCI, its affiliates or employees, in such advisory account.



## Item 12 - Brokerage Practices

DCI seeks to place securities transactions or enter into derivative contracts for its advisory clients with brokerage firms, dealers or futures commission merchants ("FCMs") in a manner that the advisory clients total costs or proceeds in each transaction are the most favorable under the circumstances ("best execution"). As a matter of policy and practice, DCI seeks to obtain best execution for client transactions, seeking to obtain not necessarily the lowest commission or transaction costs but the best overall qualitative execution in the particular circumstances. Importantly, since fixed income securities trade on a relative value (i.e., "spread") basis, the quality of execution cannot be judged merely by reference to the buy/sell price. Under some market conditions, a purchase at a higher price than initially quoted might actually represent a better execution for all participating accounts, for example, after a rally in Treasury bond prices.

DCI will generally seek "best execution" in light of the circumstances involved in transactions. In selecting a broker, dealer or FCM for any transactions, DCI may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. DCI will not obligate itself to obtain the lowest commission or best net price for an account on any particular transactions. DCI monitors transaction results to evaluate the quality of execution provided by the various brokers and dealers it uses, to determine that compensation rates are competitive and otherwise to evaluate the reasonableness of the compensation paid to those brokers, dealers and FCMs in light of all the factors described above.

DCI has adopted procedures to implement the firm's policy and reviews to monitor and insure the firm's policy is observed, implemented properly and amended or updated, as appropriate.

### *Soft Dollars:*

DCI does not have any third party soft-dollar arrangements. DCI may receive research from broker-dealers, but this is not by pre-arrangement and not afforded any weight in brokerage determinations or commissions or prices.

DCI requires that clients provide DCI with written authority to determine the broker, dealer or FCM to use and the commission costs that will be charged to our clients for these transactions.

### *Directed Brokerage:*

In certain circumstances DCI may allow an advisory client to limit or restrict DCI's discretion to execute trades for the client's account through a particular broker or dealer provided that such limitation is explicitly provided to DCI in a written agreement. A client who limits DCI's discretion to the selection of brokers or dealers or directs DCI to execute its securities transactions through a specific broker-dealer may forego certain benefits and may result in DCI being unable to achieve best execution of a client's transactions.

Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.



### *Investment Allocations and Trade Aggregation:*

Investment transactions effectuated by DCI on behalf of its clients may be effected as aggregated transactions made for more than one client account including accounts for which DCI may receive a performance-based advisory fee. To address the conflict of interest associated with the allocation of trading and investment opportunities, DCI has adopted an Investment Allocation Policy that sets forth general principles of allocation for aggregated investment transactions and is designed to assure that buy and sell opportunities are allocated fairly among clients and that, over time, all clients are treated equitably. Investment decisions for each client are made independently from those of other clients and are made with specific reference to each client's needs, objectives and investment guidelines. At times, it will be desirable to acquire or dispose of the same securities for more than one client at the same time. In this circumstance, it occasionally may not be possible to acquire or dispose of a sufficiently large portion of the security, or we may have to accept a less advantageous price or obtain a lower yield. In such situations, DCI will use its allocation procedures.

DCI's allocation procedures are designed to provide sufficient flexibility to accommodate a range of client mandates and a variety of specific client restrictions. To this end, our allocation procedures include screening portfolios for minimum permissible investment quality, average portfolio quality, other quality restrictions as well as a variety of weighting and risk restrictions and preferences. Portfolios that do not allow the quality or quantity of the investments being acquired are eliminated from the allocation process. Emphasis is given to portfolios that are the most underweight relative to our target portfolio weighting in the relative sector. Position size also becomes a factor in this process, as available cash and other considerations might prohibit allocation to certain accounts.

Given the nature and supply of certain fixed income instruments and derivatives, often a portfolio can (or must) be allocated a comparable instrument to that received by other advisory accounts. Often, DCI cannot obtain sufficient quantities of the instruments due to market conditions, but may obtain more instruments later in the trading period. In these situations, DCI will allocate based on the factors described above and settle the initial trades. New allocations will occur if additional instruments become available later in the day, using the same criteria outlined above. We do not give preference to portfolios based upon size, fees, performance, or any other criteria other than those outlined above. Any private pooled investment vehicle with any ownership by DCI and its personnel will be treated the same as other clients for allocation purposes. Finally, because DCI offers a set of different investment strategies to its various clients, it is possible that different decisions can be made concerning the timing to acquire or dispose of a particular instrument for advisory clients within any particular strategy.

Limitations placed on investments or sectors eligible for investing (for example, "do not invest in companies engaged in a particular type of business or industry" or "do not invest in companies conducting business in various countries") may reduce DCI's opportunity to allocate trades to such client as effectively as might otherwise be the case.



### Item 13 - Review of Accounts

While the underlying securities within the accounts DCI manages are continually monitored, accounts are also reviewed at least monthly. The overall performance of the separate accounts and funds is reviewed in the context of the investment objectives and guidelines of each portfolio as well as any investment restrictions provided by the client. DCI Operations monitors all separate account and fund investment restrictions on a daily basis, using our proprietary in-house application. Investment restrictions issues are brought to the attention of the DCI Risk Committee, the membership of which includes the Chief Compliance Officer. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment. In addition, the Chief Compliance Officer conducts reviews of trading exceptions identified by the firm's pre-trade compliance engine.

*These accounts are reviewed by:*

The Chief Compliance Officer, Chief Investment Officer, Head of Operations, Head of Portfolio Management and the Risk Committee.

*Reports:*

In addition to the monthly statements and confirmations of transactions that clients receive from their administrator or custodian, DCI provides monthly reports summarizing account performance and net assets.





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

DCI may engage solicitors or pay non-related persons for referring potential clients to DCI.

It is DCI's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.



### Item 15 - Custody

DCI is deemed to have custody of client assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “Custody Rule”) related to pooled investment vehicle clients for which an affiliate of DCI, DCI GP, LLC, serves as the General Partner. In order to comply with the Custody Rule, the client accounts are subject to an annual audit by a third-party auditing firm which delivers the audited financial statements to the respective investors in the pooled investment vehicles within 120 days of the applicable fiscal year-end. The audited financial statements are prepared consistent with Generally Accepted Accounting Principles (“GAAP”). The pooled investment vehicle client also employs a qualified custodian.



## Item 16 - Investment Discretion

Clients hire DCI to provide discretionary asset management services, in which case DCI places trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

DCI's discretionary authority includes the ability to do the following without contacting the client:

- determine the security or derivative position to buy, sell or enter into; and/or
- determine the amount of the security or derivative to buy, sell or enter into.

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

DCI requires that it be provided with written authority to determine which securities and the amounts of securities that are bought or sold in a client's account.

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



### Item 17 - Voting Client Securities

DCI has adopted a Proxy Voting Policy to govern situations under which DCI may have responsibility for voting proxies for portfolio securities. Given that the majority of DCI's clients do not generally invest in equity securities, there is seldom a need for the firm to vote proxies on behalf of these client accounts. The policy requires the voting of any proxy on a case-by-case basis in a manner that is consistent with the best economic interests of the clients. Were a conflict of interest to arise between DCI and its clients regarding the outcome of a proxy vote, DCI is committed at resolving the conflict in the best interest of the client before it votes the proxy at issue. If the conflict is not resolvable, DCI may disclose the conflict to its client and obtain client consent before voting or seek the recommendation of a third party in deciding how to vote. DCI will maintain a record of proxy voting decisions.

Clients may obtain a copy of DCI's Proxy Voting Policy and information about how DCI voted any proxy related to their account, free of charge, by contacting the Chief Compliance Officer, DCI, LLC, 201 Spear Street, Suite 250, San Francisco, CA 94105, or calling 415-321-7423, or emailing [skreiger@dcicom](mailto:skreiger@dcicom).



### Item 18 - Financial Information

Under no circumstances does DCI require or solicit payment of fees in advance of services rendered. Therefore, DCI is not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, DCI is also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. DCI has no additional financial circumstances to report.

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