

# Mizuho Alternative Investments, LLC

## Part 2A of Form ADV

### The Firm Brochure

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This brochure provides information about the qualifications and business practices of Mizuho Alternative Investments, LLC (“MAI”). If you have any questions about the contents of this brochure, please contact MAI’s Chief Compliance Officer, Christopher Crawford, at [mai.compliance@mizuhocbus.com](mailto:mai.compliance@mizuhocbus.com) or (212) 282-4753. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## **Item 2. Material Changes**

This brochure contains information about Mizuho Alternative Investments, LLC's ("MAI" or the "Company"), including changes since the most recent update in July 2013. MAI's business activities have not changed materially since the time of that update. We would like to bring to your attention the following changes to this brochure:

- Mr. Christopher Crawford assumed the role of Chief Compliance Officer following the departure of MAI's previous Chief Compliance Officer. MAI's previous Chief Compliance Officer left to pursue other opportunities in the investment management industry.
- A revision of Item 5 language disclosing possible expenses allocable to clients.
- Removal of references to the Discretionary Commodity Trading Adviser Team following the wind up of the discretionary commodity strategy.
- The addition of references to an additional Sub-Adviser used by MAI for one strategy.

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## **Item 4. Advisory Business**

MAI is an investment adviser to institutional clients and pooled investment vehicles (each, a "Fund"). Generally, the Funds are established in the Cayman Islands as unit investment trusts, private investment partnerships and investment companies. In addition, MAI advises a collective investment vehicle established in the State of Delaware, which invests in an offshore master Fund advised by MAI. MAI also serves as managing member to the Fund organized in Delaware. The Funds invest or participate in investments in futures, ETFs and other financial instruments. The Funds' investors are solely comprised of certain institutional investors. In providing the above-referenced services to each client and Fund, MAI formulates investment objective(s), directs and manages the investment and reinvestment of client and Fund assets, and reports investment performance information to each client and the investors of a Fund (unless they are otherwise clients individually). MAI provides investment advice to each client and Fund directly, but not to the investors of a Fund. In addition, MAI provides non-discretionary investment

advisory services to its parent company with respect to a portfolio of assets maintained in a separate account. MAI manages the assets of each client and Fund in accordance with the terms of the governing documents that are applicable to each client and Fund.

MAI was founded in 2007 and is owned by Mizuho Bank, Ltd. (“MHBK”), a bank headquartered in Tokyo, Japan, and Mizuho Securities Company, Ltd. (“MSC”), a broker-dealer headquartered in Tokyo, Japan. MHBK and MSC are wholly owned by Mizuho Financial Group, a publicly traded company listed on the Tokyo Stock Exchange, Osaka Securities Exchange, and New York Stock Exchange (American Depositary Receipts are listed on the New York Stock Exchange). MHBK, as majority shareholder of MAI, may exercise control over MAI’s operations. As of February 28, 2014, MAI managed net assets of approximately \$476 million on a discretionary basis and approximately \$324 million on a non-discretionary basis.

The offerings of shares or interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Funds are not registered under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”). MAI is registered as a Commodity Pool Operator under the U.S. Commodity Exchange Act (“Commodity Exchange Act”) with respect to certain of the Funds it advises. However, MAI has submitted notice filings stating its intent to operate these Funds pursuant to an exemption available under the U.S. Commodity Futures Trading Commission’s (“CFTC”) Regulation 4.7. MAI is also registered as a Commodity Trading Advisor (“CTA”) under the Commodity Exchange Act. Further, MAI has submitted a notice filing stating its intent to advise the Funds as though it were exempt from CTA registration pursuant to CFTC Regulation 4.7. Accordingly, MAI offers and sells interests or shares in the Funds exclusively to investors satisfying the applicable eligibility and suitability requirements of the Securities Act, Investment Company Act, Commodity Exchange Act and CFTC Regulations, either via private transactions within the United States or in offshore transactions.

Each Fund is not a bank and is a separate legal entity from MAI and its bank affiliates. Investments in a Fund are not deposits or obligations of, or guaranteed or endorsed in any way by, MAI, MHBK (individually, or collectively with its affiliates and subsidiaries, as the context requires, “Mizuho”), any other Mizuho entity, or any other bank. None of MAI, MHBK or any other Mizuho entity, the U.S. Federal Deposit Insurance Company or any other bank or governmental agency, directly or indirectly, guarantees, assumes or otherwise insures the obligations or performance of the client accounts or Funds or any other fund in which the Funds or any subsidiary of the Funds invests. Any losses in the Funds are borne solely by investors in the Fund and not by MHBK, MAI, or any other Mizuho entity.

Certain of the Funds have issued multiple classes of shares of which certain classes are subject to different investment terms, including those applicable to fees, transparency and liquidity. Details concerning applicable terms are set forth in the respective Funds’ governing documents and side letters.

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

Compensation received by MAI from the clients and Funds is generally comprised of fees based on a percentage of assets under management and performance-based amounts.

In general, MAI’s asset-based fee ranges from 0.95% to 2.75% (per annum) of the aggregate fair market value of the net assets of a client or Fund. These fees have been and, in the future, may be negotiated with clients or investors on a case-by-case basis in a manner consistent with MAI’s fiduciary duty. With respect to certain client accounts and Funds, MAI’s asset-based fee (also called a management fee) includes special allocations to a seed capital provider. With respect to certain Funds, MAI’s asset-based fee includes allocations to a sub-adviser. Generally, asset-based fees for the Funds are billed monthly or

quarterly in arrears as of the close of the calendar month or quarter during which MAI performs the services to which the fees relate. The asset-based fee shall be prorated for any billing period during which MAI does not serve as the investment manager for the entire billing period. If fees are paid in advance, upon termination of the investment advisory services, any unearned portion of fees will be refunded to the Fund on a prorated basis. This does not apply to asset-based fees allocated to the individual investors of a Fund. Also, the asset-based fee may be reduced periodically by an amount equal to placement or distribution fees, if any, paid by a Fund. MAI, at its discretion, may waive all or a portion of the asset-based compensation amount.

In general, performance-based compensation paid by the Funds ranges from 0% to 20% of net realized and unrealized profits in total for each year. Generally this amount is payable as of the end of each Fund's fiscal year. However, performance-based compensation amounts are payable more frequently with respect to at least one Fund's classes of shares. Such performance-based compensation is generally subject to net loss carry-forward provisions or "high water marks", as described in applicable governing documents. MAI, at its discretion, may waive all or a portion of the performance-based compensation amount. Performance-based fees may create an incentive for MAI to make investments that are riskier or more speculative to achieve higher performance in order to generate such fees. With respect to certain clients and Funds, MAI's performance-based compensation includes special allocations to a seed capital provider. With a performance-based fee arrangement, MAI receives compensation based on a share of the capital gains or capital appreciation of the Funds or any portion of the funds of the client or investor. Since the performance allocation will be determined on both realized and unrealized gains, MAI may receive a performance allocation at the end of a performance-based compensation period reflecting gains that are not subsequently recognized by the Funds or clients.

MAI will value, or arrange to have valued, the securities held by the clients and Funds using readily available market quotations and other commonly used and recognized methods. Generally, MAI will be responsible for determining asset valuations for all purposes including the calculation of the asset-based and performance-based fee amounts, and MAI and/or the Funds may engage independent or affiliated fund administrators to assist in such determinations. Generally, all asset-based and performance-based fees are deducted directly from the Funds and client accounts.

Each Fund generally bears all expenses concerning the operations of the Fund, which may include, but may not be limited to, the following expenses incurred by, or allocable to each Fund, and which may vary from Fund to Fund:

- (i) organizational and offering expenses incurred in connection with the offerings of Shares in the Fund and the offering of interests of the Fund;
- (ii) expenses incurred in connection with the investments made by the Fund (including research expenses and costs, travel related costs and brokerage commissions);
- (iii) expenses incurred in connection with the Funds' ongoing operations (including legal, administrative and reporting expenses including, but not limited to, middle and back office expenses) whether such functions are performed by the Investment Adviser or a third party provider;
- (iv) accounting, tax, audit and insurance expenses of the Investment Adviser or its affiliates to the extent allocable to the Funds;
- (v) custodial fees;
- (vi) interest;
- (vii) expenses incurred in respect of research, statistical, market data, third party experts and portfolio management services and software;
- (viii) expenses incurred in respect of obtaining and maintaining one or more insurance policies;
- (ix) certain extraordinary expenses, such as litigation expenses;
- (x) expenses related to an advisory committee and/or an independent client representative; and

- (xi) costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees.

See each Fund's applicable confidential offering memorandum for additional detail on expenses. Additionally, see the Brokerage Practices section below for additional information regarding brokerage commissions and expenses.

Also, each Fund will generally pay all expenses reasonably incurred in the formation and organization of, and sales of shares or interests in, the Fund, including external legal and accounting expenses, printing costs, travel, and out-of-pocket expenses, if any. MAI may incur and pay in the name and on the behalf of a Fund any expenses that it deems necessary or advisable. Under these circumstances, a Fund will promptly reimburse MAI for such expenses. Clients generally bear their own operating expenses, including, but not limited to, fees and expenses associated with their investment program (e.g., for all costs, fees and expenses incurred in connection with the purchase, sale or carrying of any security or investment, including, but not limited to, transaction costs, and margin interest expense). Details concerning applicable expenses are set forth in the respective governing documents. Clients and investors in the Funds should review all fees charged by MAI and its affiliates, custodians and brokers, and others to fully understand the total amount of fees and expenses to be paid.

Except as may be otherwise negotiated in particular cases, investors are able to withdraw from the Funds pursuant to the terms of a Fund's organizational documents. In general, the expenses, asset-based fee, and performance-based fee are charged to the investor through the date of termination. The investment management agreement with each client or Fund is terminable, without penalty, generally upon advance notice to either party. Termination periods, if applicable, are negotiable and are set forth in the respective governing documents.

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

As stated in the Fees and Compensation section above, MAI charges performance-based fees that are based on a share of capital gains on or capital appreciation of a Fund's or client's assets. As discussed previously, the fact that MAI is compensated based on such profits may create an incentive for MAI to make investments on behalf of the Funds and clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance-based fee received by MAI is based primarily on realized and unrealized gains and losses. As a result, the performance-based fee earned could be based on unrealized gains that Funds and clients may never realize. MAI currently also has Funds or clients that *do not* pay performance-based fees. MAI faces a conflict of interest by managing performance fee paying and non-performance fee paying accounts at the same time. Specifically, this may create an incentive for MAI to favor accounts for which it receives a performance-based fee. To address any potential conflict of interest in allocating transactions to performance fee paying vs. non-performance fee paying accounts, MAI's policy is not to aggregate the orders of performance fee paying accounts with those of non-performance fee paying accounts.

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

As stated previously, MAI currently provides investment advice to several collective investment vehicles, including unit investment trusts, private investment partnerships and foreign investment companies. Also, MAI provides non-discretionary investment advice for a separately managed account of its parent company.

Details concerning applicable investor suitability criteria, including investment minimums and whether such minimums are negotiable, are set forth in each respective Fund's offering documents and subscription application materials. Each investor is required to meet certain suitability qualifications, such as being a "qualified purchaser" as defined in the Investment Company Act or being a "non-U.S. person" as defined in Regulation S under the Securities Act. In addition, each U.S. investor in a U.S. Fund must also satisfy the suitability requirements under Rule 205-3 under the Investment Advisers Act of 1940, which prescribes certain requirements that must be satisfied in connection with MAI's receipt of performance-based compensation.

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

MAI employs a number of investment strategies, which rely on varying methods of analysis and sources of information and are formulated and implemented by various teams of employees within MAI, as described below.

### **Quantitative Strategies Team**

MAI's Quantitative Strategies Team ("QST") is responsible for implementation of five commodity trading advisor investment strategies with respect to certain Funds managed by MAI. The QST consists of a single portfolio management and trading team dedicated to all four strategies. The QST primarily invests in futures instruments.

The first investment objective of the QST is to seek capital appreciation through implementation of a proprietary trading system investing in a diversified portfolio of futures contracts traded on futures exchanges worldwide. The QST utilizes a proprietary trading system that is designed to profitably capture market trends and other opportunities while minimizing losses during periods of trend-less market conditions. The proprietary trading system provides signals concerning prospective end of trading day positions in certain futures contracts. Daily, the QST attempts to execute only the trades necessary to implement these recommendations. The QST's trading strategy is quantitative in nature and was developed through detailed quantitative analysis and back-testing of certain trading rules applied against historical market data, including price, volume and open interests.

The second investment objective of the QST is to seek capital appreciation through an alternative beta replication strategy employing futures, ETFs and other derivatives. To implement the alternative beta replication strategy, the QST utilizes a proprietary investment process involving input from a Sub-Adviser and receipt of trade signals from the Sub-Adviser. The alternative beta replication strategy is quantitative in nature and was developed through detailed statistical analysis. The alternative beta replication strategy depends on the Sub-Adviser's assumption that factors representing alternative beta can be extracted through rigorous mathematical procedures to enable the Sub-Adviser and MAI to reconstruct a portfolio that approximates certain hedge fund returns. Currently, the alternative beta replication strategy is employed with respect to the monthly returns of three different types of hedge fund strategies.

The third investment objective of the QST is to seek capital appreciation through an alternative beta *reverse* replication strategy employing futures, ETFs and other derivatives. To implement the alternative beta reverse replication strategy, the QST utilizes a proprietary investment process involving input from a Sub-Adviser and receipt of trade signals from the Sub-Adviser. The alternative beta reverse replication strategy is quantitative in nature and was developed through detailed statistical analysis. The strategy also depends on the Sub-Adviser's assumption that factors representing alternative beta can be extracted through rigorous mathematical procedures to enable the Sub-Adviser and MAI to reconstruct a portfolio that generates returns representing diversification from hedge fund returns. Currently, the alternative beta

reverse replication strategy is implemented with respect to monthly returns associated with the reference portfolio of the investor.

The fourth investment objective of the QST is to seek conservative returns through a cash investment strategy investing in time deposits, U.S. treasury bills, Japanese government bonds, commercial paper, certificates of deposit and other liquid instruments.

The fifth investment objective of the QST is to synthetically assume exposure in the U.S. corporate bond market. The strategy is based on economic modeling and will utilize a mathematical approach focusing on the analysis of the risk-return profile of corporate bonds in a structural manner. Quantitative risk management methodologies are integrated in the investment process to manage risk. The investment strategy is quantitative in nature and was developed through a mathematical modeling of corporate bonds. The methodologies utilized in the investment process continue to evolve over time based on newly available information and changes in certain underlying assumptions.

There is no assurance that the QST will provide an acceptable return to clients or Fund investors or not incur substantial losses. Past performance is not necessarily indicative of future results. The investment programs employed by the QST for the Funds and clients are speculative and involve a high degree of risk. There is no assurance that technical and risk management techniques utilized by the QST, as well as the investment decisions made by the QST, will not expose the Funds and clients to risk of significant losses. In addition, the analytical techniques used by the QST cannot provide any assurance that Funds and clients will not be exposed to the risk of significant trading losses if the underlying patterns of market behavior studied by the QST, and which provide the basis for its statistical models, change in ways not anticipated by the QST. Also, if any strategic investor were to redeem all of its investment, it could cause a material adverse effect on the Funds, investors, and clients.

With respect to two strategies implemented by the QST, MAI has engaged a Sub-adviser, pursuant to a sub-advisory agreement, to provide trade signals to the QST. Accordingly, in investing the assets of a Fund, the QST will be dependent upon the judgment and ability of the Sub-adviser, and in particular, the Sub-adviser's investment process. Subjective decisions made by the Sub-adviser with respect to the Sub-adviser's investment process and/or trade signals may cause the Funds to incur losses or to miss profit opportunities on which they would have otherwise capitalized. In addition, pursuant to agreement, the relationship between MAI and the Sub-adviser, may be terminated by the Sub-adviser for any reason. Although the agreement between MAI and the Sub-adviser provides that in the event of a termination by the Sub-adviser, the Sub-adviser will grant a perpetual non-exclusive license to MAI with respect to the use of the Sub-adviser's investment process, such termination could adversely impact the nature and/or transparency of the trade signals provided by the Sub-adviser to the QST, which could in turn adversely impact the Funds.

With respect to one strategy implemented by the QST, MAI has engaged a Sub-adviser, pursuant to a sub-advisory agreement, to (i) send specific instructions containing (a) the markets and instruments for inclusion in the portfolio, (b) corresponding optimal weights of exposure for each market and instrument and (c) any additional information as agreed from time to time between the parties which shall generally be used in the investment process at the MAI's discretion; and (ii) undertake to do anything incidental to the foregoing to facilitate the performance of its obligations. Accordingly, in investing the assets of a Fund, the QST will be dependent upon the judgment and ability of the Sub-adviser, and in particular, the Sub-adviser's instructions. Subjective decisions made by the Sub-adviser with respect to the Sub-adviser's instructions may cause the Funds to incur losses or to miss profit opportunities on which they would have otherwise capitalized. In addition, pursuant to agreement, the relationship between MAI and the Sub-adviser, may be terminated by the Sub-adviser for any reason. Such termination could adversely impact

the nature and/or transparency of the trade signals provided by the Sub-adviser to the QST, which could in turn adversely impact the Funds.

The investment processes used by the QST and the Sub-Advisers are dependent in part upon various computer and telecommunications technologies. The successful deployment of the investment processes, the implementation and operation of the investment processes, and various other critical activities of MAI and the Sub-Advisers could be severely compromised by telecommunications failures, power loss, software-related “system crashes,” fire or water damage, or various other events or circumstances.

The instruments the QST will trade are inherently leveraged and MAI may borrow money, engage in repurchase transactions or invest in securities on margin. Leverage exaggerates the effects of market movements, which may result in the Funds and clients experiencing greater losses or gains than would be experienced by an unlevered portfolio following a similar strategy. Decisions made by the QST in connection with its trading methodology are based chiefly on technical analysis generated by its trading program technology. The profitability of technical analysis depends upon the accurate forecasting of price movements over applicable time horizons. No assurance can be given of the accuracy of the forecasts used or made by the QST. The QST will invest primarily in futures and ETFs. Futures prices are highly volatile, and are influenced by many external economic, governmental, and world events. The low margin deposits normally required in futures trading permits an extremely high degree of leverage which can result in a substantial gain or loss to the Funds and clients from a relatively small price movement.

Investors in a Fund advised by the QST should consider an investment in such Fund as involving a high degree of financial risk and should therefore carefully consider all risk factors set forth in the relevant Fund’s offering and/or operational documents. Each prospective investor should carefully review offering and/or operational documents, as applicable, before deciding to make an investment in a Fund.

#### Structured Credit Investment Team

The Structured Credit Investment Team (the “SCIT”) provides non-discretionary investment advisory services to MAI’s parent company concerning a portfolio mainly consisting of collateralized debt obligations, which are securities backed by high-yield bond or loan instruments in so-called “cash” or synthetic form. The SCIT utilizes the services of dedicated credit analysts within the group. The analysts perform a credit analysis and develop a detailed investment analysis for every potential investment opportunity, the contents of which are submitted to the client for approval. These applications reflect analysis of proposed CDO investments according to detailed standards established by the institutional client.

### **Item 9. Disciplinary Information**

MAI and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client’s or investor’s evaluation of the company or its personnel.

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

#### MAI

As discussed previously, MAI serves as investment manager and/or investment adviser (and an affiliate may serve as the general partner) to the Funds, which take long or short positions in diverse futures, securities, derivatives, and other instruments and contracts that transfer risk. In addition, MAI is affiliated with four investment advisers via common ownership: 1) DIAM U.S.A., Inc., which is registered as an



investment adviser with the SEC (SEC File No. 801-54930); 2) DIAM Co., Ltd., which is registered as an investment adviser with the SEC (SEC File No. 801-55047); 3) Mizuho Asset Management Co., Ltd., which operates in Japan; and 4) Mizuho Global Alternative Investments, Ltd., which also operates in Japan. MAI is also affiliated with a broker-dealer via common ownership: Mizuho Securities USA Inc. (SEC File No. 8-37710).

Also, as discussed previously, MAI is owned by MHBK, a bank headquartered in Tokyo, Japan, and MSC, a broker-dealer headquartered in Tokyo, Japan. MHBK serves major corporations, financial institutions and their group companies, public sector entities, and overseas corporations including subsidiaries of Japanese corporations. MHBK's business activities include accepting deposits, lending, investment banking, and custodial services, among others. MSC's business activities include sales, trading, settlement, and foreign exchange services, among others. MHBK and MSC are wholly owned by Mizuho Financial Group, a publicly traded company listed on the Tokyo Stock Exchange, Osaka Securities Exchange, and New York Stock Exchange (American Depositary Receipts are listed on the New York Stock Exchange). MHBK, as majority shareholder of MAI, may exercise control over MAI's operations. MAI has entered into various servicing agreements with MHBK whereby MHBK provides MAI with administrative, IT system, disaster recovery, compliance and legal support. Such services are provided by MHBK for a fee that MAI believes is equivalent to fees that would be charged by service providers who are not affiliated with MAI in an arm's length transaction.

MAI utilizes the services of Mizuho Trust & Banking Co. (USA) ("MHTB"), which is a part of the Mizuho Financial Group, as a custodian and fund administrator for three Funds it advises. Due to MAI's relationship with MHTB, a clear conflict of interest exists. However, MAI believes that fees paid to MHTB are in line with fees that would be charged by custodians and fund administrators who are not affiliated with MAI. MAI also utilizes MHTB's services pursuant to its fiduciary duty to the Funds. In order to carry out its fiduciary responsibilities, it is MAI's policy to obtain a SSAE 16 (Level II) report from MHTB annually regarding its control activities and processes.

MAI serves as Managing Member for the onshore feeder ("Onshore Fund") of an offshore master Fund it advises. The Onshore Fund is a Delaware limited liability company and is designed for investment by U.S. taxable investors. The Onshore Fund is also advised by MAI and intends to invest substantially all of its investable assets in the offshore master Fund. MAI as Managing Member is vested with complete control of the management and conduct of the business of the Onshore Fund. The Non-Managing Members have no responsibility for the management of the Fund and have no authority or right to act on behalf of the Onshore Fund or to bind the Onshore Fund in connection with any matter.

#### The Sub-Advisers

In addition to serving as Sub-Advisers to the Funds, the Sub-Advisers may act without limitation as investment manager, investment adviser, sponsor, manager, general partner or managing member for other clients, funds, accounts and collective investment vehicles ("Other Sub-Adviser Accounts") and give advice, and take action, with respect to any of those Other Sub-Adviser Accounts that may differ from the advice given, or the timing or nature of action taken, with respect to the Funds. The Sub-Advisers may engage in transactions or investments or cause or advise Other Sub-Adviser Accounts to engage in transactions or investments that may differ from or be identical to the transactions or investments engaged in by the Sub-Advisers for the Funds' accounts. In addition, the Sub-Advisers and their affiliates may advise Other Sub-Adviser Accounts that trade in identical or similar underlying investments, or similar strategies, as the Funds and that are generally classified as the same type of fund product, even though such activities may be in competition with the Funds and/or may involve substantial time and resources of the Sub-Advisers or its affiliates. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Sub-Advisers and their officers and employees will not be devoted exclusively to the business of the Funds, but will be allocated between the business of the Funds and the

management of the Other Sub-Adviser Accounts. Moreover, in contrast to the Funds, such Other Sub-Adviser Accounts may pay the Sub-Advisers performance fees, which could create an incentive for the Sub-Advisers to allocate more profitable trade signals or instructions to such Other Sub-Adviser Accounts instead of to the Funds. The Sub-Advisers shall not have any obligation to engage in any transaction or investment for the Funds' account or to recommend any transaction to the Funds that the Sub-Advisers or their affiliates may engage in for their own accounts or any Other Sub-Adviser Accounts, except as otherwise required by applicable law.

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

### **Principal Investment**

MAI is the investment manager to the Funds and, as such, receives management and incentive fees from the Funds. MAI also recommends that investors purchase interests in the Funds.

MAI or related persons may also purchase a security of the same class of securities held by a client or a Fund. In addition, because certain of MAI's clients are Funds of which MAI or an affiliate is the managing member, investment manager, and/or significant owner, MAI may be considered to participate indirectly in the transactions effected for such Funds.

In all cases, if the possibility of a conflict or interest occurs, the clients'/Funds' interests will prevail. It is the policy of MAI that equal or higher priority will always be given to the clients'/Funds' orders over the orders of MAI or a related person. MAI maintains extensive written policies and procedures related to its trading practices.

### **Personal Trading**

To avoid any potential conflicts of interest involving personal trades, MAI has adopted a Code of Ethics ("CoE"), which includes personal trade pre-clearance, reporting and review policies and procedures and anti-insider trading policies and procedures. MAI's CoE requires, among other things, that employees:

- Act with integrity, dignity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, third-party service providers, and fellow employees;
- Place the integrity of the investment profession, the interests of clients, and the interests of MAI above one's own personal interests;
- Adhere to the fundamental principle that you should not take inappropriate advantage of your position;
- Avoid any actual or potential material conflict of interest prior to consulting with senior management;
- Disclose all material conflicts of interest to clients;
- Conduct all personal securities transactions in a manner consistent with the CoE;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner, such as will reflect favorably on you and the profession;
- Promote the integrity of and uphold the rules governing the capital markets;

- Maintain and improve your professional competence and strive to maintain and improve that of other investment professionals; and
- Comply with all applicable provisions of the federal securities laws.

MAI's CoE also requires employees to: 1) pre-clear certain personal securities transactions; 2) report personal securities transactions on at least a quarterly basis; and 3) provide MAI with a detailed summary of certain holdings and securities accounts (both upon commencement of employment and annually thereafter) in which such employees have a direct or indirect beneficial interest.

A copy of MAI's CoE is available to any client, investor, prospective client, or prospective investor upon request.

## **Item 12. Brokerage Practices**

### **Selection of Brokers**

In making its decisions regarding the allocation of brokerage transactions for the Funds and other clients, MAI seeks to obtain best execution, taking into account the following factors: (i) the broker's ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness and frequency of available research services considered to be of value to MAI and its clients; (v) the value of brokerage services over and above trade execution provided to MAI and its clients; and (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying MAI's other selection criteria. Although MAI generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services. In certain instances MAI may execute over-the-counter securities transactions on an agency basis, which may result in the Funds or other clients incurring two transaction costs for a single trade: a commission paid to the executing broker-dealer plus the market maker's mark-up or mark-down.

MAI does not intend to seek lower brokerage commissions to the extent that doing so may detract from receiving valuable brokerage and research services. The commissions or equivalents charged by any one broker-dealer may be greater than the amount another firm would charge for executing the same transactions if MAI determines in good faith that the amount of such commissions is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. Selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

In the event a client directs MAI to use a particular broker or dealer, MAI will not have the authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients. In addition, transactions for a client who directs brokerage may not be batched for execution with transactions in the same securities for other clients. As a result, directed brokerage transactions may result in higher commissions, greater spreads, less favorable net prices, and inferior overall execution than would be the case if MAI were authorized to choose the broker-dealers through which to execute transactions for the client's account.

### Commission Arrangements

MAI is authorized to use “soft dollars” to pay for brokerage and research services, although it does not currently use any soft dollars. Generally speaking, “soft dollar” arrangements are understood to be ones where products or services other than the execution of securities transactions are obtained by an investment adviser from a broker-dealer in exchange for the direction of client brokerage transactions to the broker-dealer. “Soft dollars” would be that portion of the brokerage commission that exceeds the lowest rate available from other broker-dealers for basic execution services. Payment of this excess amount is frequently referred to as “paying up.” Using client brokerage commissions (or markups or markdowns) to obtain research or other products or services results in a benefit to MAI because MAI does not have to produce or pay for the research, products or services. Also, MAI may have an incentive to select a broker-dealer based on its interest in receiving research or other products or services, rather than on its clients’ interest in receiving most favorable execution.

Although MAI has not entered into any formal “soft dollar” arrangements to date, it may do so in the future. Commissions or soft dollars will pay for brokerage and research products or services, within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), research obtained with soft dollars generated by one client/Fund may be used by MAI to service accounts other than the account responsible for generating the soft dollars.

### Proprietary Research and Brokerage Services

MAI executes futures and securities transactions with multiple executing brokers, many of whom provide MAI with access to proprietary research and brokerage services (*e.g.*, standard investment, securities and economic research and credit reports, and securities price and market data), which may be used to service several accounts at MAI. To the best of MAI’s knowledge, these services are generally made available to all institutional investors doing business with these broker-dealers. These bundled services are made available to MAI on an unsolicited basis and without regard to the rates of commissions charged or paid by MAI’s clients or the volume of business MAI directs to these broker-dealers. Since these products and services are merely made available by broker-dealers as part of a bundled business package to MAI, who may or may not use them, it is MAI’s understanding that broker-dealers do not set discrete prices for these products and services. Accordingly, MAI does not separately compensate these broker-dealers for the provision of these services and does not believe that it “pays-up” for the broker-dealers’ services due to the difficulty associated with the broker-dealers not breaking out the costs for the services in question.

The broker-dealer(s) that have entered into prime brokerage and/or futures clearing arrangements with MAI may occasionally provide MAI with introductions to potential investors. Capital introduction is a service provided by prime brokers/futures clearing merchants (“FCMs”) and is designed to “introduce” private fund managers to potential investors, typically through individual meetings or in a conference format. Although capital introduction is customarily offered as a “free” service, various conflicts of interest are presented by such arrangements. While MAI does not compensate these broker-dealers based on capital introductions, MAI may be incentivized to use the services of a specific prime broker/FCM due to the broker/FCM’s ability to raise capital for MAI. In addition, MAI benefits from arrangements where investors are referred to MAI because its asset-based fees are generally based upon a percentage of assets managed and its performance-based fees are generally based upon a percentage of net profits on such assets. Thus, the more assets MAI has under management, the higher its asset-based fee income and, potentially, its performance-based fee income. Also, there is a direct conflict between the prime brokers’/FCMs’ desire to increase their revenues by raising capital through their prime brokerage and/or futures clearing services. The prime broker/FCM and/or its affiliates generally receive fees/commissions as a result of MAI’s decision to utilize its services as follows: custodian of client accounts managed by MAI; securities transactions executed on behalf of MAI’s clients; and lending funds and/or securities to

MAI as part of MAI's investment strategy, i.e. margin/short sale and/or securities lending programs. While the relationship may present the appearance of a conflict of interest, the availability of the foregoing products and services to MAI is not contingent upon MAI committing to the prime brokers/FCMs any specific amount of business (assets in custody or trading commissions).

#### Aggregation of Client Orders

In some instances, MAI bunches or aggregates an order for a client or Fund account with orders for other accounts. However, in some cases, MAI elects not to bunch or aggregate an order for a client or Fund account with orders for other accounts. The effect of such bunching, aggregation or lack thereof may operate to the disadvantage of the client or Fund. For example, transactions for a client or Fund that are not bunched for execution with transactions in the same securities for other clients may result in higher commissions, greater spreads, less favorable net prices, and inferior overall execution than would be the case if MAI were to have bunched or aggregated the order prior to execution. Transactions resulting from aggregate orders are generally allocated fill-by-fill algorithmically in a manner that effectively allocates as close to the target average price of the entire order as possible. In the event an aggregate order is only partially filled, allocations of contracts or shares to clients or Funds are generally made on a pro rata basis.

#### Trade Errors

MAI is not liable for trade errors resulting from ordinary negligence, such as errors in the investment decision-making process (e.g., a transaction was effected in violation of the Fund's investment guidelines) or in the trade process (e.g., a buy order was entered instead of a sell order, or the wrong security was purchased or sold, or a security was purchased or sold in an amount or at a price other than the correct amount or price). Also, MAI is not liable for any act or omission of any broker or dealer selected by MAI with reasonable care.

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

Ongoing portfolio management is the responsibility of the Senior Vice President ("SVP") of the QST and the the SCIT, subject to the oversight of MAI's Chief Executive Officer ("CEO"). Informal meetings between the SVP of the QST and the CEO generally occur daily, but no less frequently than weekly. In the case of the SCIT, informal meetings between the SVP and the CEO occur on an ad-hoc basis. The strategies selected by the SVPs /CEO are then implemented by the individuals within each team responsible for trading. In some cases, the SVPs are also traders.

The SVP of the QST determines specific strategies for client accounts managed by the QST, performs portfolio optimization, monitors overall risk, and reviews allocations. In the event an aggregate order is only partially filled, allocations to clients or Funds are generally made on a pro rata basis. The traders execute trades, perform qualitative and quantitative research, and propose new investment ideas to the SVP and/or CEO. Market fluctuations, proposed changes in investment strategy, or economic developments may be factors which could trigger a review by the SVP/CEO.

With respect to the Funds for which MAI serves as investment manager, investors receive regular written reports as specified in each Fund's constituent documents (such as the offering memorandum or limited partnership agreement).

For each privately offered Fund for which MAI serves as a managing member, each investor receives written audited financial statements for the Fund within 120 days after the conclusion of the Fund's fiscal year, including audited schedules of investments, balance sheets, income statements and cash flow statements. For Funds with U.S. resident partners, each investor receives a written statement of the

investor's share of the Fund's taxable income or loss for the given year. For each privately offered Fund for which MAI is deemed to have custody of client assets, each investor receives written audited financial statements for the Fund within 120 days after the conclusion of the Fund's fiscal year, including audited schedules of investments, balance sheets, income statements and cash flow statements.

In addition to the foregoing reports and statements, MAI may also provide, in its discretion, individual investors or clients or groups of investors or clients with more frequent written disclosure, greater transparency or provide additional information not contained in the above mentioned reports and statements, either due to legal/regulatory constraints that must be followed by some of the Funds' investors and/or the specific needs of and requests made by certain investors. Regular written reporting for any separately managed accounts shall be similar to the foregoing.

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

MAI may, from time to time, compensate affiliated and unaffiliated persons for client referrals in accordance with Rule 206(4)-3 under the Advisers Act. The compensation to be paid will generally consist of a cash payment computed as a percentage of the assets under management referred, although other methods may be used. Currently, such an arrangement is in place with respect to one MAI employee.

#### **Item 15. Custody**

All Fund and client assets are held in custody by broker-dealers or banks. With respect to certain of the Funds, MAI has access to such assets since it serves as managing member and/or is able to directly debit from such assets certain amounts for payment of advisory fees and other fees and expenses. In addition, MAI utilizes the services of MHTB, which is a part of the Mizuho Financial Group, as a custodian and fund administrator for certain Funds it manages. The Funds' investors generally will not receive quarterly statements directly from the Funds' custodians. Instead the Funds are generally subject to an annual audit by an independent public account and the audited financial statements are distributed to each investor. As discussed previously, the audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of a Fund's fiscal year end.

#### **Item 16. Investment Discretion**

MAI is authorized to make the following determinations in accordance with each Fund's objectives and restrictions without obtaining prior consent from the Fund or any of its investors: (1) which securities or instruments to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions. MAI may be authorized to make the aforementioned determinations for other clients as well in accordance with discretionary investment management agreements executed with each such client.

#### **Item 17. Voting Client Securities**

MAI, unless otherwise agreed upon in governing documents or other investment management agreements, is responsible for voting proxies on behalf of each client and Fund. When voting proxies for a client, MAI's primary objective is to make voting decisions in the best interest of such client. When voting proxies for securities held in a Fund, MAI will make voting decisions that it deems to be in the best interest of all investors in the Fund, considered as a group rather than individually. When determining the optimal vote, consideration will be given to both the short and long term implications of the proposal that is subject to vote. MAI's proxy voting policies enumerate specific factors to consider when voting client proxies that

concern corporate governance, stock option plans and other management compensation issues, changes in capital structure, and social and corporate responsibility issues. In voting client proxies, MAI will seek to avoid material conflicts of interest between the interests of MAI and its affiliates and the interests of its clients. A copy of MAI's complete proxy voting policy and procedures is available to any client, investor, prospective client and prospective investor upon request. While MAI will rarely have the occasion to vote client proxies, it will also make its voting record available to any client or investor upon request.

## **Item 18. Financial Information**

MAI has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.