



**Cognios Capital, LLC  
Disclosure Brochure**

**March 22, 2013**

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This brochure provides information about the qualifications and business practices of Cognios Capital, LLC. If you have any questions about the contents of this brochure, please contact us at (913) 214-5000. 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 Cognios Capital, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This update of the Disclosure Brochure for Cognios Capital, LLC contains the following material changes from our 2012 annual update to our Disclosure Brochure, which was filed on March 31, 2012.

The Firm's name was changed from TCP Fund Management, LLC to Cognios Capital, LLC. The Firm added a new line of business for Separately Managed Accounts ("SMAs"). The Firm became the investment adviser to the "Cognios Market Neutral Large Cap Fund" mutual fund. The Firm also became the investment adviser to a separate investment account for the Topwater Opportunity Fund, LP. Due to SEC registration requirements and material changes in the Firm's investment strategies and operations, we have modified several sections of this Brochure. We advise reading this version of the Brochure in its entirety.

# Disclosure Brochure

March 22, 2013

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# Advisory Business

## General

Cognios Capital, LLC ("Cognios," the "Firm," the "Adviser," "we" or "us") is an investment adviser registered with the U.S. Securities and Exchange Commission. Our Firm was founded in 2008. We provide investment advisory services to clients on both a discretionary and non-discretionary basis. We provide discretionary advice to the following private funds: Cognios Pure Alpha Fund, LP, Cognios Core Equity Fund, LP, and Cognios Beta Neutral Large Cap Fund, LP (collectively, the "Private Funds"). We are the investment adviser for the "Cognios Market Neutral Large Cap Fund" mutual fund ("Mutual Fund"). In addition to advising the Private Funds and the Mutual Fund, we offer a Separately Managed Account ("SMA") platform on both a discretionary and a non-discretionary basis, to high net-worth individuals and institutions. As of January 31, 2013, Cognios managed approximately \$275,349,014 of client assets (\$162,141,805 on a discretionary basis and \$113,207,209 on a non-discretionary basis).

Cognios is principally owned by TCP Holdings, LLC. Jonathan C. Angrist is the sole Manager of Cognios.

## Separately Managed Accounts

We advise SMAs for high net-worth individuals and institutions. SMA investments may include common and preferred stocks, bonds and other debt securities, convertible securities, exchange-traded funds, closed-end funds, REITs, options, warrants, credit default swaps, monetary instruments, Master Limited Partnership ("MLP") units, limited liability company interests, U.S. and Canadian income and royalty trusts, cash and cash equivalents.

Separately Managed Accounts are offered on a discretionary and non-discretionary basis. At our sole discretion, we will manage legacy portfolios within a SMA.

Cognios acts as the Adviser to a separately managed Investment Account for Topwater Opportunity Fund, LP.

## Mutual Fund

We serve as the Adviser to the Cognios Market Neutral Large Cap Fund. The Mutual Fund is offered by prospectus only. The prospectus includes investment objectives, risks, fees, expenses, and other information that prospective investors should read and consider carefully before investing.

## Private Funds

We serve as the investment manager to the Private Funds. The Private Funds' investments may include common and preferred stocks, bonds and other debt securities, convertible securities, exchange-traded funds, closed-end funds, REITs, options, warrants, credit default swaps,

monetary instruments, Master Limited Partnership ("MLP") units, limited liability company interests, U.S. and Canadian income and royalty trusts, cash and cash equivalents.

As investment manager to the Private Funds, we research potential investments and are responsible for all of the Private Funds' investments, including monitoring the performance and disposition of the Private Funds' respective investments. In our Private Funds research, we use a combination of fundamental and quantitative investment selection techniques.

## Fees & Compensation

### Separately Managed Accounts

Fees for SMAs are negotiable for all strategies and may range from 0.5% to 2.0%.

The Firm, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

The Firm shall charge an annual fee based upon a percentage of the market value of the assets being managed by the Firm. The Firm's annual fee shall be prorated and charged quarterly, in arrears, based upon the average daily balance for the applicable period.

Separately managed accounts may incur certain charges imposed by custodians and other third parties which may include charges imposed directly by a mutual fund or exchange traded fund in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to the Firm's advisory fee.

See "*Brokerage Practices*" below for additional information.

### Mutual Fund

Cognios may recommend or allocate the Mutual Fund to certain advisory clients. In these instances, we waive the client's management fee. The client pays the fees, expenses and charges associated with the Mutual Fund, custodian or other third parties. Please refer to the prospectus for information about the fees and expenses associated with the Mutual Fund. The prospectus is available at [www.cogniosfunds.com](http://www.cogniosfunds.com).

## *Private Funds*

In return for our service as investment manager to the Private Funds, each of the Private Funds pays us, quarterly in advance, a management fee based on each limited partner's share of the respective Private Fund's net asset value. Additionally, some Private Funds' general partners, who are under common control with us, may earn a performance fee from a Private Fund. All Private Fund fees are established by each Private Fund's governing documents (the "Fund Agreements") and are described in each Private Fund's offering memorandum (collectively, the "Memoranda," and for each Private Fund, a "Memorandum").

Limited partners in each of the Private Funds, like investors in other private investment funds, may be limited in their ability to terminate their participation in the pooled investment vehicle. Those limits are set out in the Memorandum for each of the respective Private Funds, which should be read carefully. Lower fees for comparable services may be available from other sources. Management fees within the partnerships may be negotiated or waived at the discretion of the Adviser and/or the General Partner.

## **Performance-Based Fees & Side-By-Side Management**

Cognios is under common control with certain General Partners of the Private Funds. As such, there is a conflict of interest in allocating potentially more favorable investment opportunities to the Private Funds that pay an incentive or performance based fee to the General Partner. Performance based and incentive fees also create the incentive to allocate potentially riskier, but potentially better performing, investments to such Private Funds in an effort to increase the incentive fee.

Cognios may receive a performance fee from the Topwater Opportunity Fund, LP (a first-loss capital program). The Firm manages multiple strategies with similar investment objectives and eligible securities. In cases where multiple funds/accounts may be invested in or investing in the same security, a conflict may arise when one fund or account is paying an incentive based fee. In such cases, and in the course of normal trading activity, the Firm may have a conflict when allocating trades to such accounts as described above. The Firm's portfolio managers and compliance staff manage potential conflicts of interest by allocating investment opportunities in a fair and equitable manner consistent with the investment objectives and strategies of each Private Fund, client and account, and in accordance with our allocation policies and procedures so that no Private Fund or client will be disadvantaged in relation to any other Private Fund or client.

Cognios may recommend or allocate the Mutual Fund for which we act as investment adviser. Cognios receives a management fee from the Mutual Fund which may be higher than the management fee for a SMA running the same strategy. Each Mutual Fund recommendation or allocation will be evaluated and made only if Cognios deems it to be in the client's best interest.

## **Types of Clients**

The Firm services the following types of clients: Individuals, high-net worth individuals, institutions, trusts, private funds, charitable organizations, pension plans and others.

Each Private Fund managed by the Firm has a minimum purchase requirement which is described in the Memorandum, although each Fund's general partner has discretion to modify such minimum purchase requirements. The Firm requires that separately managed accounts have assets of at least \$100,000, although we reserve the right to lower that amount.

## **Methods of Analysis, Investment Strategies & Risk of Loss**

### *Methods of Analysis*

Our security analysis methods include fundamental, quantitative and technical.

The firm's primary active management investment strategies are: equity market neutral, quantitative value, core equity, micro-cap, quantitative growth, and global equity passive exposure. Each is described below.

1. Equity Market Neutral Strategy. The Firm currently has two market neutral strategies: (a) large cap strategy available to clients of the Firm through (i) private investment partnerships (i.e., hedge funds) named the Cognios Pure Alpha Fund, LP and the Cognios Beta Neutral Large Cap Fund, LP, (ii) a separately managed account, and (iii) an open-end mutual fund named the Cognios Large Cap Market Neutral Fund (see prospectus for details); (b) all cap strategy is available to clients of the Firm through a separately managed account.

"Market neutral" generally means that the long positions in a portfolio are equal in dollar value to the short positions in a portfolio. One of the main objectives of a market neutral portfolio typically is to remove the effect of the ups and downs of the broad stock market from the investment

performance of the stocks in a portfolio. However, in order to most effectively remove the overall market's movements (i.e., the broad market's *Beta*) from a portfolio of stocks, Cognios believes that the size of the short book needs to be adjusted based on the relative *Betas* of the long and short book. Therefore, both the large cap and all cap strategies are market neutral on a *Beta*-adjusted basis.

*Beta* is a statistical measure of the sensitivity of stock's price to the change in price level of an overall stock market index. For our strategies, the *Betas* are relative to the S&P 500 Index. A *Beta* equal to 1.0 means that a stock generally moves up and down in line with the stock market. A *Beta* of less than 1.0 means that a stock's price generally moves up and down less than the stock market. A *Beta* greater than 1.0 means that a stock generally moves up and down more than the stock market.

In a *Beta*-adjusted market neutral portfolio the size of the short book can be larger or smaller than the size of the long book. If the *Beta* of the long book is *higher* than the *Beta* of the short book, the short book needs to be *larger* than the size of the long book in order to remove all of the market's broad movements (i.e., to remove the market's *Beta*). If the *Beta* of the long book is *lower* than the *Beta* of the short book, the short book needs to be *smaller* than the size of the long book in order to remove all of the market's *Beta* from the portfolio. Even though the portfolio will be net short on an absolute dollar basis in the first example (i.e., more shorts than longs) and net long on an absolute dollar basis in the second example (i.e., more longs than shorts), both would be market neutral on a *Beta*-adjusted basis.

When a portfolio is market neutral on a *Beta*-adjusted basis, the net performance of the portfolio should be much closer to "pure *Alpha*." *Alpha* is the statistical measure of the risk-adjusted performance against the market index that an active portfolio manager is delivering to its clients.

Over time, the returns of these strategies should have a low correlation to the S&P 500 and have the opportunity to make or lose money regardless of the positive or negative performance of the S&P 500 Index.

The investment strategy of both the large cap and all cap strategies are based on Cognios' proprietary *ROTA/ROME*™ investment strategy, which is discussed in more detail below.

2. Quantitative Value Strategy. The quantitative value strategy is similar to the long-book of the large cap market neutral strategies. It is available to clients of the firm as a separately managed account. The investment strategy is based on Cognios' proprietary *ROTA/ROME*™ investment strategy, which is discussed in more detail below.
3. Core Equity Strategy. The firm's core equity strategy is a concentrated portfolio of very large cap, high quality, US companies selected by the managers based on proprietary fundamental research. This strategy is available to clients of the firm as (a) a private investment partnership named the Cognios Core Equity Fund, LP and (b) as a separately managed account.
4. Micro-Cap Strategy. The micro-cap strategy utilizes a fundamental value based active stock picking approach. It is available to clients of the firm in as (a) a long/short portfolio in a separately managed account, as well as (b) a long only portfolio in a separately managed account.
5. Quantitative Growth Strategies. The quantitative growth strategies are available as large cap, small cap, and all cap portfolios. The main focus of these strategies is on accelerating revenue and earnings growth rates. These portfolios are available to clients of the firm as a separately managed account.
6. Global ETF Strategy. The global exchange-traded funds strategy provides passive exposure to global equity markets through the use of index ETFs.

*ROTA/ROME*™ *Investment Strategy*: The investment strategies of the Market Neutral and Quantitative Value strategies described above utilize Cognios' proprietary *ROTA/ROME*™ investment approach. *ROTA/ROME*™ is a value-based quantitative stock picking strategy that favors companies with high returns on tangible assets ("*ROTA*") and high earnings yields on current stock prices ("*ROME*", or return on market equity). Cognios believes that *ROTA* is a key driver of a company's intrinsic value and companies with high *ROTA* are generally worth more in intrinsic value than companies with low *ROTA*. Cognios also believes that *ROME* is an important metric for assessing how cheap

or how expensive a stock is at a point in time. The basic tenet is that when you buy a stock, *ROTA* represents the value you get and *ROME* represents the price you are paying. The overall value-based objective is to buy a lot of value at low prices.

### *Investment Strategies*

We use the following investment strategies and techniques to implement investment advice given to clients: long term purchases, short term purchases, trading, short sales, margin transactions, option purchases, and option writing (including covered options, uncovered options, or spreading strategies).

### *Risk of Loss*

Whether we manage an individual account for a client or a person invests in any of the Private Funds, clients and/or investors should be aware that investing in securities involves risk of loss and should be prepared to bear that loss. Risks are inherent in any investment, the amount of which may vary significantly, and investment performance can never be predicted or guaranteed. There is no guarantee that the investment objectives of the strategy selected for an account will be met.

Investors considering an investment in any of the Private Funds should consider that investing in a private fund involves certain risks beyond those which are associated with the underlying securities the Private Funds may own.

Risks associated with any investment in our strategies, SMAs and/or Private Funds may include some or all of the following:

***Illiquidity:*** Investments in the Private Funds are not liquid and the Private Funds restrict an investor's ability to transfer and withdraw interests in the Private Funds ("Interests"). Neither the offer nor sale of the Interests have been registered under the Securities Act of 1933 or any similar state law, and no market exists for Interests.

***No Assurance of Investment Return:*** Our task of identifying and evaluating investment opportunities, managing such investments and realizing a positive return for investors is difficult. There is no assurance that a Private Fund will be able to invest its capital on attractive terms or continue to generate positive returns for its investors over the long term. There is also no assurance that an individual account will generate positive returns for the investor.

***Valuations:*** The value of the securities held in an individual account or by a Private Fund (as well as the value of a Private Fund itself), determines the level of fees paid by investors. In certain cases, if the underlying investments are not publicly traded, they may be difficult to value. In such cases, investors in a Private Fund face the

risk that a Private Fund's value may not be accurately established.

***Our Due Diligence Processes:*** Any due diligence investigation that we may perform with respect to investment opportunities may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such opportunity, including, among other things, the existence of fraud or other illegal or improper behavior. Moreover, such an investigation will not necessarily result in the investment being successful.

***Concentration of Investments:*** Because a high percentage of a Private Fund's total capital may be invested in a single or a few portfolio investments, any single loss may have a significant adverse impact on the particular Private Fund's capital. In addition, the Private Funds are not required to diversify their investments among particular industries or regions.

***Short Sale Risk:*** Strategies which utilize short sales may not always be able to close out a short position on favorable terms. Short sales involve the risk that the investment will incur a loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is also a form of leverage.

***Leverage Risk:*** Certain strategies use leverage in the investment programs, including the use of borrowed funds, investments in certain types of options, such as puts, calls and warrants, and the use of short sales. Leverage is a speculative technique that may adversely affect investors. If the return on securities acquired with borrowed funds or other leverage proceeds does not exceed the cost of the leverage, the use of leverage could cause the investor to lose money. There is no assurance that a leveraging strategy will be successful.

***Tax Considerations:*** An investment in a Private Fund may involve complex U.S. federal income tax considerations that will differ for each investor. Under certain circumstances, investors in a Private Fund could be required to recognize taxable income in a taxable year for U.S. federal income tax purposes, even if a Private Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income. Since often funds do not make any distributions to their members, a member's tax liability attributable to his or her investment in any of the Private Funds likely will exceed the cash distributed. The Private Funds may invest in entities which would cause them to have to report for U.S. Federal income tax purposes, taxable income prior to the time the Private Fund receives any distributions from such investments. In addition, the

Private Funds' portfolio investments might expose the Private Funds to income taxation in foreign jurisdictions.

**No 1940 Act Protection:** The Private Funds seek to maintain their structures so as to not be required to register as investment companies under the Investment Company Act of 1940 ("1940 Act") and, therefore, the Private Funds' investors will not have the benefit of various protections afforded by the 1940 Act.

**Two Levels of Fees:** Although in many cases investor access to the assets held by the Private Funds may be limited or unavailable, an investor who meets the conditions imposed by such assets may be able to invest directly in such assets. By investing in one of the Private Funds' assets indirectly through any of the Private Funds, the investor indirectly bears the asset-based fees and any performance-based fees and allocations of the underlying asset; and an investor in the Private Funds also bears a proportionate share of the fees and expenses of the Private Funds (including organizational and offering expenses, operating costs, the management fee and other fees). Thus, an investor in a Private Fund is subject to higher operating expenses than if he or she invested in a Private Fund's assets directly.

**Hedging Strategy Risk:** Each of the strategies may invest in financial instruments such as short sales, forward contracts, options and interest rate swaps, caps and floors, and other derivatives to hedge against fluctuations in the relative value of their portfolio positions as a result of changes in currency exchange rates, interest rates and in the equity markets or sectors thereof. There is no assurance that the hedging transactions will be effective in reducing exposure to any of these risks. Hedging transactions are subject to correlation risk, which is the risk that payment on our hedging transactions may not correlate exactly with the investments being hedged. Interest rate transactions that the Firm may use for hedging purposes, such as swaps, caps and floors, will expose the Private Funds to certain risks that differ from the risks associated with portfolio holdings.

**MLP Risk:** Strategies may invest in equity securities of MLPs. As a result, it is subject to the risks associated with an investment in MLPs, including price risk, cash flow risk and tax risk. Price risk is the risk that an MLP's market price will decline. Cash flow risk is the risk that MLPs will not make distributions to holders (including us) at anticipated levels or that such distributions will not have the expected tax character. MLPs are also subject to tax risk, which is the risk that MLPs might lose their partnership status for tax purposes.

**Conflicting Interests Risk:** The incentive fee payable by the Private Funds to us or our affiliates may create an incentive for us to make investments on behalf of the Private Funds that are riskier or more speculative than would be the case in the absence of such a compensation arrangement. Because a portion of the incentive fee

payable to us or our affiliates is calculated as a percentage of net investment income, we may imprudently use leverage to increase the return on the Private Funds' investments. Under some circumstances, the use of leverage may increase the likelihood of default or forced liquidations, which could disfavor the limited partners.

## Disciplinary Information

The Firm has no disciplinary history to report.

## Other Financial Industry Activities & Affiliations

Our principals control and/or have, or may have in the future, minority or majority interests in the general partners of the Private Funds managed by the Firm.

Some individuals associated with Cognios Capital, LLC may also devote time and resources to Fambran Enterprises, LLC (dba Brandmeyer Enterprises). This affiliated company is an unregistered investment adviser and commodity pool operator relying on the family office exemption.

## Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

### Code of Ethics

Our Code of Ethics (the "Code") sets out general ethical standards applicable to our employees. Our employees are expected to maintain the highest ethical standards, embody a business culture that supports actions based on what is right rather than expediency, deal fairly with customers and one another, protect confidential information and seek guidance about ethical questions. More specifically with respect to advisory activities, the Code requires that whenever we act in a fiduciary capacity, we will endeavor to consistently put the client's interest ahead of ours. We will not engage in fraudulent, deceptive or manipulative conduct with respect to clients, and will act with appropriate care, skill and diligence.

Advisory personnel are required to know when we are acting as a fiduciary with respect to the work they are doing. If we are, employees are expected to comply with all fiduciary standards applicable to us in performing their duties. In addition, employees must put the client's interest ahead of their own personal interest. An employee's fiduciary duty is a personal obligation.

In addition to these ethical principles, the Code requires that our staff acknowledge receipt of the Code, report violations of the Code and comply with applicable federal and state securities laws. The Code also incorporates a personal securities trading policy, which is intended to



deter and prevent insider trading among other things. The policy contains detailed requirements for respecting information barriers relating to material nonpublic information, as well as restricting, reporting and monitoring employees' personal securities trading. We will provide a copy of the Code, free of charge, to any client or prospective client upon request.

#### *Participation or Interest in Client Transactions*

It is possible, although not a general practice of Cognios, that we may recommend that client or the funds which we manage buy or sell securities or investment products in which a related person of Cognios or an employee of Cognios has some financial interest. Our principals may invest in the funds that we manage, and we require that all such transactions be carried out in a manner that does not endanger or conflict with the interests of any client.

We require that all of our supervised persons act in accordance with all applicable federal and state regulations governing their activities in their capacities as such. Furthermore, we have adopted the Code expressing the firm's commitment to ethical conduct and prohibiting certain types of transactions. See "*Code of Ethics*" above. Individuals associated with us may buy or sell securities for their personal accounts which are identical or different than those recommended to clients. It is our policy that no employee may prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decision of advisory clients.

Our Chief Compliance Officer pre-approves certain employee transactions according to the Firm's Code of Ethics policies and procedures. The Chief Compliance Officer periodically reviews employee transactions to ensure that personal transactions do not conflict with the interests of the Private Funds or any other client.

## **Brokerage Practices**

In instances where we have discretionary authority to determine the types and amounts of securities to be bought or sold for the Private Funds and SMA clients, the broker or dealer to be used and the commission rates to be paid, the Firm will conduct a thorough analysis based on its policies and procedures. The factors involved in the broker or dealer selection include transaction costs, broker research capabilities, service level and other services provided (i.e. prime brokerage).

The commissions paid by clients comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than that which they could obtain at another financial institution to effect the same transaction. The Firm conducts an analysis and makes a determination as to the reasonableness of commissions in relation to the value of the brokerage, research and related services received. In seeking best execution, the determinative factor is not the lowest possible cost, but

whether the transaction represents the best qualitative execution, taking into consideration the full range of services, including without limitation, the value of research provided, execution capability, commission rates, responsiveness and other functions performed by the broker. The Firm seeks competitive rates but may not obtain the lowest possible commission rates for client transactions.

Subject to our policy of seeking best execution for transactions, and subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 (the "1934 Act"), when we have broker discretion, we may place trades with a broker that provides brokerage and research services to us. We may have an incentive to select or recommend a broker based on our interest in receiving research or other products or services, rather than on our clients' interest in receiving most favorable execution. However, in selecting a broker for research, we will make a good faith determination that the amount of commission charged is reasonable in relation to the value of the brokerage, research received. The determination may be viewed in terms of a particular transaction or our overall responsibilities with respect to the accounts over which we exercise investment discretion. Subject to Section 28(e) of the 1934 Act, we may pay a broker additional commission in recognition of the value of the brokerage and/or research services provided by that broker. Research provided may be used for all of our clients. When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.

We may suggest brokers to separately managed account clients. We base our recommendations on service levels and also with the objective of minimizing transaction costs. In these instances, the commissions paid by clients comply with the Firm's duty to obtain "best execution."

With respect to separately managed accounts, from time-to-time the clients may direct brokerage transactions through their custodians or other brokerage firms. Accordingly, we will be unable to seek the best available price and most favorable execution of such clients' portfolio transactions. Consequently, such clients may not necessarily obtain execution of transactions or brokerage rates as favorable as those, which might be obtained through an investment adviser that does undertake to select brokerage firms or to negotiate rates with those selected firms. Furthermore, the fees and charges payable under this arrangement may be higher than the aggregate amount of fees and charges such clients would pay if the client (or Cognios) were to negotiate the fees and charges of each service provider and securities transaction separately.

We may aggregate orders of securities for multiple client accounts. We may aggregate sale and purchase orders of securities held by our clients with similar orders being

made simultaneously for other clients if such aggregation is reasonably likely to result in overall economic benefit to clients based on an evaluation that the clients are benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In some instances, the purchase or sale of securities for clients will be effected simultaneously with the purchase or sale of like securities for other clients. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions is determined and the client may be charged or credited, as the case may be, the average transaction price.

## Review of Accounts

Our compliance staff and portfolio managers review each of the Private Funds' accounts and other client accounts on a continuous basis. NAV Consulting acts as a fund administrator and provides investors in the Private Funds account statements on a monthly basis. Separately managed accounts are reviewed with clients periodically on a schedule negotiated with the clients.

## Client Referrals & Other Compensation

The requirements of this section are not applicable to Cognios at this time.

## Custody

While we do not maintain physical possession of any client's securities or assets, we are deemed to have custody of the Private Funds' assets, because fees are directly deducted from each partner's account in accordance with the terms of each of the Fund Agreements. Custody of each of the Private Funds' assets are maintained with a bank or brokerage firm (the "Custodian") selected by us in our discretion, which selection may change from time to time.

Custody of assets in separately managed accounts are maintained with a bank or brokerage firm (the "Custodian") selected either by the client or by Cognios. We are deemed to have custody of separately managed account assets, if, for example, the client authorizes us to instruct the Custodian to deduct advisory fees directly from the account. SMA clients receive account statements directly from the Custodian at least quarterly. Clients should carefully review those statements promptly upon receipt.

Each Private Fund partner receives, as soon as practicable (within 120 days except under certain unforeseeable circumstances), following each fiscal year of the particular Private Fund an annual financial statement prepared in accordance with U.S. generally accepted accounting principles and audited by an

independent certified public accounting firm that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board in accordance with its rules.

The Firm may also be deemed to have custody of client assets for certain clients who are affiliates or owners of the Firm. This determination is due to the fact that a related person or adviser is deemed to have custody. As such, Cognios is subject to an annual surprise verification of client assets by an independent public accountant.

## Investment Discretion

In our role as investment manager of the Private Funds, each of the Fund Agreements grants us full authority to manage the assets and affairs of the Private Funds. With respect to separately managed accounts that are under discretionary management, we are granted full authority to manage the assets of the accounts subject to the Investment Management Agreement signed by the client and Cognios. All clients who grant discretionary authority to Cognios must do so in writing via an Investment Management Agreement or an amendment thereto. With respect to non-discretionary separately managed accounts, Cognios provides investment advice to the client and the client decides whether or not to follow some or all of the recommendations. Clients in separately managed accounts may place restrictions on their accounts.

## Voting Client Securities

We generally do not take any action or render any advice with respect to voting proxies solicited by, or with respect to, the issuers of any client securities, except to the extent otherwise required by law or as otherwise directed by the client in writing. If the client agreement is entered into by a trustee or other fiduciary on behalf of an employee retirement income plan subject to the Employee Retirement Income Security Act ("ERISA"), including a person meeting the definition of "fiduciary" under ERISA, the trustee or other fiduciary generally retains the right and obligation to vote proxies. In such cases, Cognios is generally precluded from voting proxies for the plan. Consistent with applicable rules and regulations of the securities exchanges relating to providing proxies by member organizations, under certain circumstances, with respect to separately managed accounts, the client may delegate to us the obligations to vote proxies on the client's behalf. In addition, we vote proxies for the Private Funds and the Mutual Fund.

Our proxy voting procedures provide that we vote proxies in our clients' interests, and that if we identify a material conflict of interest between us and the client, we will vote based upon the recommendation of an independent third party. In certain circumstances, in accordance with a client's investment advisory contract, or other written

directive, or if we have determined that it is in the client's best interest, we may refrain from voting proxies.

Upon written request, the client will be provided with our proxy voting policies and procedures. Clients may also request, in writing, copies of records regarding how we voted their securities. Written requests must be addressed to: Cognios Capital, LLC, Attn: Chief Compliance Officer, 11250 Tomahawk Creek Parkway, Leawood, KS 66211.

## **Financial Information**

Cognios has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.