



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

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This brochure provides information about the qualifications and business practices of 1492 Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 414-276-1492 or [info@1492cm.com](mailto:info@1492cm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about 1492 Capital Management, LLC also is available on the firm's website [www.1492capitalmanagement.com](http://www.1492capitalmanagement.com) or 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 148566.

**Item 2 Material Changes**

This brochure was updated on March 8, 2013, providing information that is different from that which we provided to our clients and potential clients in our previous brochure filed on April 26, 2012. We have updated certain material information in this brochure as more fully described below:

Item 4 – Advisory Business, Item 5 – Fees and Compensation; Item 6 - Performance-based Fees and Side-By-Side Management, Item 7 – Types of Clients have been updated to include information about the following: our recently announced Small Cap Dynamic Hedge and Small Cap Strategic Hedge strategies for separately managed accounts, Item 12 – Brokerage Practices

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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

1492 Capital Management, LLC is a SEC-registered investment adviser with its principal place of business located in Milwaukee, WI. 1492 Capital Management, LLC began conducting business in 2008.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company):

- Joseph A. Frohna, Principal and Portfolio Manager
- The Hawthorne Partners, Inc.

1492 Capital Management, LLC offers the following advisory services to our clients:

**Portfolio Management:** Our firm primarily provides discretionary asset management services to mutual funds, collective investment funds, individuals, corporations, foundations, trusts, and other separate accounts using one of our small cap or all-cap equity investment strategies. We may manage client assets pursuant to an approach other than one of our primary investment strategies as requested by the client and agreed upon by us. We do not provide financial planning services or offer financial advice regarding a client's whole portfolio.

For our separate account clients, we manage the advisory accounts on a discretionary basis which affords 1492 Capital Management the capacity to direct the investment and reinvestment of assets in the client's separate account without first consulting with that client. Account supervision is guided by the client's written investment policy (i.e., small cap growth, small cap value, small cap core alpha, small cap dynamic/strategic hedge, or value income).

Separately managed account clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors as may be part of a socially responsible focus, for example. Once the client's portfolio has been established, we review the portfolio at least quarterly, and, rebalance the portfolio on an as needed basis to comply with the internal model portfolios representing the distinct strategy.

Our investment recommendations will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Options and warrants
- Futures contracts on stock indices
- Initial public offerings

**Strategy Descriptions:** Our firm provides portfolio management services to clients primarily using model equity portfolios. Each equity model portfolio is designed to meet a particular investment goal and represent a specific market segment within the domestic equity market.

### Small Cap Growth Strategy

This strategy acquires primarily domestic and foreign equities listed in the U.S. that will generally have a market capitalization between \$50 million and \$3 billion.

We utilize a bottom-up fundamental process in conjunction with bottom-up derived themes. The key tenets of stocks in the portfolio are as follow: prospects for 15% to 20% top and bottom line growth over the next 12 to 18 months; what we believe to be a superior and defensible business model; a management team with a track record of creating shareholder value; self-funding growth through free cash flow generation; an attractive valuation on both an absolute basis and relative to its industry peers; higher than peer levels of inside ownership; and, a strong balance sheet.

Theme-based investing is used to emphasize industries and/or sectors of the economy that may have the opportunity for better growth prospects as a result of an economic tailwind. Themes are derived as a result of the many face-to-face company management meetings our portfolio team conducts each year. Once a theme is identified, we try to find as many companies that could be beneficiaries of this theme as possible. We then perform fundamental analysis and additional management due diligence. Only companies with what we believe to have better business models, management teams, and valuations are acquired for the portfolio.

Generally, up to 60% of the portfolio will be invested in themes. The remaining portion of the portfolio is individual stocks where a company advantage has been identified. We believe outperformance within the small cap arena is first a function of stock selection. Also crucial, is recognizing when there is a change in the company's probability of sustaining its growth profile. This change can be the result of altering market forces, a drain on the company's resources, or poor execution by management. Small stocks may carry significant downside risk so it is important to identify potential problem situations as early as possible. Our process includes risk management that incorporates a daily sell alert screen that identifies stocks, which are not performing in line with their peers and the rest of the market as defined by a benchmark index. We also use technical analysis as a supplemental tool to identify those stocks whose price is acting poorly.

This strategy's performance is measured against the Russell 2000 Growth Index.

### Small Cap Value Strategy

This strategy acquires primarily dividend paying domestic equity and foreign equities listed in the U.S. that will generally have a market capitalization between \$300 million and \$3 billion.

We utilize a bottom-up fundamental process in conjunction with bottom-up derived themes. The investment process begins with individual company meetings. We will conduct many face-to-face meetings with company management both in our offices and at investment conferences. We focus on the company's management, return on capital, revenue and earnings growth prospects, a company's competitive advantages, financial condition and valuation.

Fundamental research includes a valuation process we refer to as "triangulating" a target price. This method incorporates financial ratios from the balance sheet, income and cash flow statements. Valuation criteria include: price to tangible book; high cash balances; low debt and cash flow generation from improved asset utilization. In addition, we emphasize using normalized earnings

metrics, and enterprise value to sales and EBITDA ratios to discover the earnings power of the balance sheet. The research team may also conduct channel checks with customers and vendors as well as study SEC filings and proxy statements. The portfolio may have as much as 40% of its holdings tied to themes. Once a theme is identified, we try to find companies that may benefit from the general theme itself but are more likely to be less followed. The companies with business models, management teams, and valuations we find attractive are purchased for the portfolio. The theme is expected to act as a catalyst for growth and provide an advantage to both the company's performance and the performance of its stock.

This strategy's performance is measured against the Russell 2000 Value Index.

### Small Cap Core Alpha Strategy

This strategy is a portfolio combining 20 to 30 stocks which have already been selected for either the Small Cap Growth or Small Cap Value strategies described above.

The selection process for the Small Cap Core Alpha strategy, therefore, starts by opportunistically picking stocks, of which approximately half come from each the Small Cap Growth portfolio and the Small Cap Value portfolio, that have what we believe are favorable risk-to-reward metrics at that time.

As with the Small Cap Growth and Small Cap Value strategies, Individual company research leads us to develop themes as we look horizontally at competitors and vertically at the supply chain for other companies experiencing a similar tailwind as the original target company. Our thematic approach enables us to...

- Focus our research efforts quickly on industries we believe have great promise
- Maximize the higher growth segments of the economy in our portfolio
- More nimbly enter and exit positions due to the diversification the thematic approach provides

Theme-based investing is used to emphasize areas of the economy that are performing better than others. Themes are generally driven from a bottom-up process as the investment team gathers real-time data points from numerous one-on-one management meetings each year. Once a theme is identified the team tries to find as many companies that will be beneficiaries of this theme. Then, only companies with what we believe are the best overall business models, management teams, and valuations are placed in the portfolio. As the theme plays out, the team would expect the general theme to perform better than the index and the selected stocks within the theme to outperform the overall theme. This process is overlaid with a top-down assessment of current and anticipated economic conditions and the impact on the company in question.

The strategy is measured against the Russell 2000 Index.

### Value Income Strategy

This strategy primarily invests in common stocks of all market capitalizations, including micro-caps to mega-caps. Generally, the market capitalization of the stocks in this strategy will be above \$100 million, with no limit on the upper end of the range. The flexibility to discover undervalued stocks across all market capitalizations allows the manager to focus on those stocks with what we believe are the most attractive fundamental and valuation characteristics regardless of the company's size. The

primary characteristic of the holdings will be dividend paying stocks. At cost, the dividend yield on the stocks will generally be above 4%. We believe that focusing on common stocks with attractive dividend yields will help enhance total returns to investors over the long-term, while possibly muting volatility of returns. In addition to the dividend yield, other valuation and liquidity parameters that will be evaluated include: enterprise value to sales; enterprise value to EBITDA; and long-term debt to total capitalization.

We utilize a bottom-up fundamental process in conjunction with bottom-up derived themes. The investment process begins with individual company meetings. We conduct many face-to-face meetings with company management both in our offices and at investment conferences. We focus on the company's management, return on capital, revenue and earnings growth prospects, a company's competitive advantages, financial condition and valuation. Fundamental research includes a valuation process we refer to as "triangulating" a target price. This method incorporates financial ratios from the balance sheet, income and cash flow statements. Valuation criteria include: price to tangible book; high cash balances; low debt and cash flow generation from improved asset utilization. In addition, we emphasize using normalized earnings metrics, obtained by evaluating how the company has performed historically during periods of economic expansion as well as recessions. The research team may also conduct channel checks with customers and vendors as well as study their SEC filings and proxy statements. Investment themes are identified that we believe could provide a fundamental tailwind for the company. We strive to find companies that may benefit from the general theme itself, but often will discover a derivative theme that may not yet be identified by Wall Street analysts. The companies with business models, management teams, and valuations that we find attractive are purchased for the portfolio. The theme is expected to act as a catalyst for growth and provide an advantage to both the company's performance and the performance of its stock.

This strategy's performance is measured against the Russell 3000 Value Index.

### Small Cap Dynamic Hedge Strategy

This strategy is an alternative small cap strategy which combines a core portfolio of 20 to 30 of what believe are the most compelling small cap growth and small cap value stocks selected with the same methodologies described in the strategies above, together with sector-based, volatility-based and/or inverse exchange trade funds ("ETFs") and/or options and futures contracts. The ETFs, options and futures (collectively referred to as "hedging vehicles") are traded tactically alongside the core holdings to provide downside market protection through the use of hedging strategies and/or to generate alpha for the portfolio.

The strategy seeks long term capital appreciation through investing in a portfolio of equity securities and combining a dynamic tactical overlay. The strategy intends to pursue its investment objective by investing in companies with small market capitalization, which we currently define as \$3 billion or less. Under normal market conditions, the strategy will invest no less than 70% of the net assets in equity investments of small market cap companies.

The net exposure to equities may be adjusted based upon management's overall assessment of risk and opportunity in the market and the portfolio, including the strategy's cash position. When management perceives the strategy's equity risks to be low and opportunities high, and depending upon the strategy's cash positions, the strategy could have a low to zero exposure to hedging vehicles. Conversely, when management perceives the strategy's equity market risk to be high, and opportunity



low, it will reduce the net exposure by effecting a dynamic hedge though the use of hedging vehicles or take long positions in inverse ETFs, for example. The portfolio managers can hedge up to 100% of the strategy's long equity exposure. Generally, it is the Strategy's objective to maintain net exposure between 100% and 0% net long. For example, if the portfolio invests 50% of its net assets in long equity positions and 50% of its net assets in short positions, the portfolio is "0% net long." These investment strategies may reduce the risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements; however, such strategies also may reduce the opportunity for gain by offsetting the positive effect of favorable price movements.

### Small Cap Strategic Hedge Strategy

This strategy is an alternative small cap strategy which combines a core portfolio of 20 to 30 of what believe are the most compelling small cap growth and small cap value stocks selected with the same methodologies described in the strategies above, together with sector-based, volatility-based and/or inverse exchange trade funds ("ETFs"). The ETFs are traded tactically alongside the core holdings to provide downside market protection through the use of hedging strategies and/or to generate alpha for the portfolio.

The strategy seeks long term capital appreciation through investing in a portfolio of equity securities and combining a dynamic tactical overlay. The strategy intends to pursue its investment objective by investing in companies with small market capitalization, which we currently define as \$3 billion or less. Under normal market conditions, the strategy will invest no less than 70% of the net assets in equity investments of small market cap companies.

The net exposure to equities may be adjusted based upon management's overall assessment of risk and opportunity in the market and the portfolio, including the strategy's cash position. When management perceives the strategy's equity risks to be low and opportunities high, and depending upon the strategy's cash positions, the strategy could have a low to zero exposure to hedging vehicles. Conversely, when management perceives the strategy's equity market risk to be high, and opportunity low, it will reduce the net exposure by effecting a dynamic hedge though the use of long positions in inverse ETFs, for example. The portfolio managers can hedge up to 100% of the strategy's long equity exposure. Generally, it is the Strategy's objective to maintain net exposure between 100% and 0% net long. For example, if the portfolio invests 50% of its net assets in long equity positions and 50% of its net assets in short positions, the portfolio is "0% net long."

These investment strategies may reduce the risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements; however, such strategies also may reduce the opportunity for gain by offsetting the positive effect of favorable price movements.

Publication of Periodicals: 1492 Capital Management, LLC publishes a periodic blog, a monthly newsletter for clients and a quarterly newsletter and webinar for clients and constituents of the firm, providing general information on various financial topics including, but not limited to, economic environment, state of the market for small cap stocks, and market trends. No specific investment recommendations are provided in this newsletter or blog and the information provided does not purport to meet the objectives or needs of any individual. This information is distributed free of charge to our advisory clients.



Amount of Managed Assets: As of March 8, 2013, we were actively managing \$117 million of clients' assets on a discretionary basis.

## **Item 5 Fees and Compensation**

The annualized fee for Small Cap Growth, Small Cap Value and Value Income Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$25 million	1.00%
Second \$25 million	0.90%
Assets in excess of \$50 million	0.80%

The annualized fee for Small Cap Core Alpha Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$25 million	1.25%
Assets in excess of \$25 million	1.00%

The annualized fee for the Small Cap Dynamic Hedge and Small Cap Strategic Hedge Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
No Limit (Flat)	1.95%

The fees are billed in arrears at the end of each calendar quarter. Fees are calculated using the month end value of the client's account at the end of each calendar month and applying the management fee rate to that value. The calculated amounts for the three months during the quarter just ended are summed to compute an aggregate quarterly fee. Fees will be prorated for a partial month if the account is opened or closed during the month. Also, fees will be debited from the account in accordance with the client authorization in the Client Services Agreement unless some other payment method is agreed upon.

A minimum of \$250,000 of assets under management is required for Portfolio Management Services pursuant to the Small Cap Growth, Small Cap Value, Small Cap Core Alpha and Value Income strategies. A minimum of \$500,000 of assets under management is required for Portfolio Management Services pursuant to the Small Cap Dynamic Hedge and Small Cap Strategic Hedge strategy. The account size may be negotiable under certain circumstances. 1492 Capital Management, LLC may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Mutual Fund Fees: 1492 Capital Management provides investment advisory services to the 1492 Funds: 1492 Small Cap Growth Fund. The fund's advisory fee is 1.00% based on the average daily net assets

of the fund. Advisory fee and expense-related information may be found in the Fund's Prospectus or Statement of Additional Information.

Collective Investment Fund Sub-advisory Fees: As a sub-adviser, 1492 Capital Management provides investment advisory services to the 1492 Capital Management, LLC Small Cap Growth and Small Cap Value Collective Investment Funds products established by and offered through Huntington National Bank as trustee. The sub-advisory fee is 0.90% based on the average daily net assets of each fund.

Model Portfolio Management Services: Our annual fees for Model Portfolio Management Services are based upon a percentage of assets under management and generally range from 0.40% to 1.25%.

Accounts will be invoiced in arrears at the end of each calendar quarter based upon the value (market value or fair market value in the absence of market value, plus any credit balance or minus any debit balance), of the client's account at the end of the previous quarter.

A minimum of assets under management may be required for this service; however, this account size may be negotiable under certain circumstances.

Limited Negotiability of Advisory Fees: Although 1492 Capital Management, LLC has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

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.

Wrap Fee Programs and Separately Managed Account Fees: Clients participating in separately managed account programs may be charged various program fees in addition to the advisory fee charged by our Firm. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients. 1492 Capital Management may participate in wrap and separately managed account fee programs as an advisor.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any

transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information. Clients whose assets are managed pursuant to a performance fee arrangement are also responsible for those fees according to the methodology described in the advisory agreement.

**IF APPLICABLE: Grandfathering of Minimum Account Requirements:** Pre-existing advisory clients are subject to 1492 Capital Management, LLC's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

**ERISA Accounts:** 1492 Capital Management, LLC is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, 1492 Capital Management, LLC may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset 1492 Capital Management, LLC's advisory fees.

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

**Limited Prepayment of Fees:** 1492 Capital Management, LLC generally does not allow clients to prepay fees.

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

1492 Capital Management, LLC may make performance-based fees available to clients upon request. Although there is an incentive to favor accounts with performance-based fees, as our compensation is directly tied to the account's performance, accounts are typically managed identically regardless of the fee structure chosen by the client.

1492 Capital Management, LLC may have an incentive to manage the assets of accounts with performance-based fees differently from its other accounts because the fees earned from such accounts could be greater than the fees earned from other accounts, depending upon the investment performance achieved by the account. As a result, 1492 Capital Management, LLC may have an incentive to take more risks in, direct its best investment ideas to, or to allocate or sequence trades in favor of, the accounts that pay a performance-based fee. 1492 Capital Management, LLC believes this potential conflict is effectively controlled by its management of all accounts within a particular investment strategy similarly regardless of fee structure and by its trade processing and allocation procedures.

A performance-based fee arrangement includes, as a base, a fixed, management fee component that is calculated monthly and billed quarterly in arrears as well as a variable component that could be calculated based on the relative outperformance of the portfolio to the stated composite benchmark, calculated based on the appreciation of the client assets or calculated based on the gain in the account.

In any case, the performance-based fee will be calculated pursuant to the advisory agreement, but no less frequently than quarterly at the end of the calendar quarter and billed thereafter.

## **Item 7           Types of Clients**

1492 Capital Management, LLC provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above

1492 Capital Management, LLC is also the investment advisor to the 1492 Funds which are generally available to retail and institutional investors. Additional information for opening, maintaining and closing an account with the 1492 Funds can be found in the prospectus made available at [www.1492Funds.com](http://www.1492Funds.com).

1492 Capital Management, LLC may have minimum account size restrictions as referenced in Item 5 above.

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

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

Fundamental Analysis. We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Technical Analysis. We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Qualitative Analysis. We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk of using qualitative analysis is that our subjective judgment may prove incorrect.

Risks for all forms of analysis. Our 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: We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

Long-term purchases. We may purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular theme over time, regardless of the current projection for this theme.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases. We may purchase securities with the idea of holding them in the client's account for less than a year. Typically, we employ this strategy when:

- we believe the securities achieve their price target in less than a year, and/or
- when a company's growth prospects may accelerate beyond our expectations and the stock price appreciates as a result.

A risk in a short-term purchase strategy is that by holding the security for this length of time, we may increase the volatility and turnover of the portfolio. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

## **Item 9            Disciplinary Information**

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

There are no disciplinary events related to the firm.

The following discusses a disciplinary event related to matters dating back to 2002 for a member of management personnel:

On August 1, 2007, the SEC filed a complaint against Joseph Frohna in the U.S. District Court for the Eastern District of Wisconsin Case No. 07-CV-702 (E.D. WIS. 2007), then on August 16, 2007, pursuant to Section 203(f) of the Investment Advisers Act of 1940 ("IA ACT"), the SEC instituted and settled an administrative proceeding against Mr. Frohna. IA ACT Release No. 2635 (Aug. 16, 2007).

The complaint and administrative proceeding alleged that Mr. Frohna, who neither admitted nor denied the allegations, violated Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by misappropriating material, non-public information during 2002 regarding a drug being developed by Xoma, Ltd. and Genentech, Inc. and using that information as a basis to sell the shares of Xoma owned by the mutual fund he managed at U.S. Bancorp Asset Management. The fund avoided a loss of \$954,776. Mr. Frohna was ordered to pay disgorgement in the amount of \$954,776 along with prejudgment interest of \$315,886.57. He was also ordered to pay a civil penalty of \$954,776. All amounts were paid in August of 2007. Mr. Frohna was enjoined permanently from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Mr. Frohna was suspended from associating with any investment adviser for a one-year period which ended August 28, 2008. He has submitted an affidavit to the SEC demonstrating full compliance with the suspension.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

1492 Capital Management, LLC and our personnel owe a duty of loyalty, fairness and good faith towards 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.

Our Code of Ethics 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 the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering as well as equities with a market capitalization above \$5 billion as the firm restricts transacting in securities with market capitalizations below \$5 billion. Our code also provides for oversight, enforcement and recordkeeping provisions.

1492 Capital Management, LLC's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity. A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [info@1492cm.com](mailto:info@1492cm.com), or by calling us at 414-276-1492.

1492 Capital Management, LLC and individuals associated with our firm are prohibited from engaging in principal transactions.

1492 Capital Management, LLC and individuals associated with our firm are prohibited from engaging in agency cross transactions.



## **Item 12 Brokerage Practices**

For discretionary clients, 1492 Capital Management, LLC requires these clients to provide us with written authority to determine the broker dealer to use and the commission costs that will be charged to these clients for these transactions.

1492 Capital Management, LLC will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible but may necessitate, based on investment strategy selected, the use of a single broker dealer, such as Interactive Brokers, for the alternative strategies. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help 1492 Capital Management, LLC in providing investment management services to clients. 1492 Capital Management, LLC may, therefore recommend (or use) the broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

Consistent with obtaining best execution for clients, 1492 Capital Management, LLC may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to 1492 Capital Management, LLC and, indirectly, to 1492 Capital Management, LLC's clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. 1492 Capital Management, LLC does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. 1492 Capital Management, LLC may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if 1492 Capital Management, LLC determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ('brokerage') discretionary client accounts.

Additionally, 1492 Capital Management, LLC, participates in wrap programs sponsored by Robert W. Baird & Co. ("Baird") and Morgan Stanley Smith Barney ("Morgan Stanley") and executes trades with them. We may have an incentive to place trades with Baird and Morgan Stanley to potentially gain additional clients from them. Although these wrap accounts typically will not participate in our allocation of initial public offering shares, we may purchase the security in the open market via the wrap sponsor.

Our firm currently maintains a brokerage and custodian relationship with Interactive Brokers for its alternative strategies. Accounts currently using Interactive Brokers as custodian must also trade through Interactive Brokers. These accounts will not participate in our allocation of initial public offering shares; however, we may purchase the security in the open market for them.



Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and 1492 Capital Management, LLC makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker-dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When 1492 Capital Management, LLC uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that 1492 Capital Management, LLC does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

Within our last fiscal year, we have obtained the following products and services on a soft-dollar basis:

- Factset; IDC; Omgeo Oasys and Alert; NYSE; Interactive Brokers' data service; and, Sungard Fix

Beginning in 2013, Advent's Moxy product for trade execution and order transmission services as well as pricing services received through Interactive Brokers for our alternative and other strategies have become part of our soft dollar program.

1492 Capital Management, LLC will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Trades for accounts that are on Interactive Broker's platform are traded through Interactive Brokers exclusively and are executed simultaneously with other accounts that are not on the Interactive Broker platform. Trades executed for those Interactive Broker accounts are block traded.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. 1492 Capital Management, LLC will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day. 1492 Capital Management, LLC's block trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with 1492 Capital Management, LLC, or our firm's order allocation policy.
- 2) The trading desk, in concert with the portfolio manager, must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- 3) The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable 1492 Capital Management, LLC to seek best execution for each client participating in the aggregated

order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.

- 4) Prior to entry of an aggregated order, a written order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 5) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.
- 6) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- 7) If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by the Chief Compliance Officer no later than the morning following the execution of the aggregate trade.
- 8) 1492 Capital Management, LLC's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 9) Funds and securities for aggregated orders are clearly identified on 1492 Capital Management, LLC's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- 10) No client or account will be favored over another.
- 11) 1492 Capital Management and its employee accounts may be part of a block order placed to purchase or sell a particular security. Thus, when the firm's or a related person's account holds the same security that is within one or more client accounts, or needs to purchase the same security that one or more client accounts will purchase, there is an inducement for 1492 Capital Management to block the trades because the average price may be better than the price the related account could have achieved alone. In all cases, client needs and objectives are placed ahead of those of 1492 Capital Management and its related persons' accounts.

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

Reviews: While the underlying securities within Individual Portfolio Management Services accounts are regularly monitored, these accounts are reviewed on a monthly basis. Accounts are reviewed in the

context of the investment objectives and guidelines of each model portfolio as well as any investment restrictions provided by the client. More frequent reviews may be triggered by material changes in variables such as the market, political or economic environment.

These accounts are reviewed by the Portfolio Review Committee, which includes: the CCO; the COO, the portfolio managers of all strategies; and, the trader.

Reports: In addition to the monthly or quarterly statements and confirmations of transactions that clients receive from their custodians, 1492 Capital Management, LLC will provide monthly reports summarizing account performance, balances and holdings. In the case of accounts with Interactive Brokers LLC as custodian, our firm will forward monthly reports from the custodian summarizing account holdings and balances.

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

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and,
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

It is 1492 Capital Management, LLC'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**

Our firm does not have actual or constructive custody of client accounts.

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

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

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or

- Determine the amount of the security to buy or sell

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

A conflict of interest exists in that we may have an incentive to favor accounts associated with owners of 1492 Capital Management, LLC over other client accounts.

## **Item 17      Voting Client Securities**

We vote proxies for all client accounts; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

We will vote proxies in the best interests of our clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by calling 414-276-1492, emailing [info@1492cm.com](mailto:info@1492cm.com), or writing at 309 N. Water Str. Suite 505, Milwaukee, WI 53202. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should call 414-276-1492, email [info@1492cm.com](mailto:info@1492cm.com), or submit a request in writing to 309 N. Water St., Suite 505, Milwaukee, WI 53202.

You can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. You can also instruct us on how to cast your vote in a particular proxy contest by calling 414-276-1492 or sending an email to [info@1492cm.com](mailto:info@1492cm.com)

## **Item 18      Financial Information**

1492 Capital Management, LLC has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

## **Other Portfolio Holdings Disclosure**

From time to time, 1492 Capital Management, LLC may make available to third parties current or historical information regarding the portfolio holdings of the models or certain separate account clients, and the Mutual Fund. These third parties may include rating agencies, industry trade groups, consultants, and financial publications. In compliance with applicable law and consistent with its fiduciary duties, 1492 Capital Management, LLC will generally only release such information when it is otherwise publicly available, when there is a validly executed agreement imposing a duty of confidentiality on the other party and covering the use of the information, or when 1492 Capital Management, LLC reasonably believes that the release will not be detrimental to the best interests of the applicable client(s). With respect to the portfolio holdings of the Mutual Fund, such disclosures are also subject to the Mutual Fund's respective policy regarding disclosure of portfolio holdings.

## **Privacy Policy**

Preserving trust is a core value. 1492 Capital Management, LLC recognizes that clients expect us to protect the information they provide us and to use it responsibly. We are strongly committed to fulfilling the trust that is the foundation of our clients' expectations. For that reason we have adopted and adhere to the following policy regarding the privacy of client information.

### Why We Collect And How We Use Information.

When we evaluate your request for our services, provide investment advice to you and place transactions for your account, you typically provide us with certain personal information necessary for us to provide these services. We may also use that information to offer you other services we or an affiliate may provide which may meet your investment needs.

### What Information We Collect.

The information we collect may include: name and address; employer; Social Security number or tax payer identification number; assets; income; account transactions; investment and other financial product positions and balances; investment objectives; accounts at other institutions; transactions at other institutions, including affiliates; the identities of consultants, accountants, attorneys and other professionals you engage. Information we receive from third parties, including credit bureaus; and information we obtain to verify your representations to us, such as your identity and assets.

### We Limit How, and With Whom We Share Your Information

We do not sell your personal information to anyone. We may disclose information about you with your consent to our employees, affiliates, representatives and their affiliated businesses. We may disclose information to nonaffiliated third parties when providing services to you. Nonaffiliated third parties may include retirement plan sponsors or third party administrators, custodial banks, mutual fund companies, insurance companies and agencies, third party advisory firms, banks, broker-dealers, transaction clearing firms, accountants, lawyers, securities professionals, companies that assist us with the maintenance of required records, and others to assist us, or them, in providing services to you.

We may also share information with companies that perform services on our behalf, such as the companies that we hire to perform marketing or administrative services. Companies we may hire to provide support services are not allowed to use your personal information for their own purposes. We may also make additional disclosures as permitted by law.

We will also share the information we received from you as required by laws and rules applicable to you, client account service providers, 1492 or 1492's representatives.

If you close your account, in the process of transferring your accounts we may share your information with the new broker-dealer, investment adviser or custodian that you or your 1492 representative selects. Your 1492 representative may use the personal information about you in his or her files to provide you with information regarding the new firm, account transfer procedures and documents.

If you prefer that we not share your nonpublic personal information (except in those circumstances described above that are permitted or required by law), you may opt out at any time by notifying us not to share information. To notify us, please call us at 414-276-1492. You will be asked to provide identifying client information at that time, including your Social Security Number.

For accounts that are held jointly by more than one client, any of the account holders may opt out on behalf of the other account holders. Any opt out instructions received from one owner of a joint account will apply also to individual accounts in that person's name, as well as other accounts held jointly by that person, based on the account information we have.

#### How We Protect Information.

Employees and our advisory representatives are required to comply with our established information confidentiality procedures. We also maintain physical, electronic, and procedural safeguards to protect information. For example, our computer systems utilize password protection to prevent access by unauthorized personnel. 1492 ensures service providers provide assurances that they will restrict their use of the information provided about you.

#### Access to and Correction of Your Information.

Upon your written request, we will make available your information for review. Information collected in connection with, or in anticipation of, any claim or legal proceeding will not be made available. If your personal information with us becomes inaccurate, or if you need to make a change to that information, please contact us at the number shown below so we can update our records. Also, if you believe someone has accessed your account without authorization, please contact us as soon as possible.

#### Further Information.

For additional information regarding our privacy policy, or if you have any questions and/or concerns about your account or about our services, please contact Client Services by writing to us at 309 North Water Street, Suite 505, Milwaukee, Wisconsin, 53202.