



## **Disclosure Brochure**

**March 29, 2018**

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This Brochure provides information about the qualifications and business practices of VII Peaks Capital, LLC (hereinafter “VII Peaks Capital”). VII Peaks Capital is registered with the United States Securities and Exchange Commission (“SEC”) as an investment adviser. That registration does not imply a certain level of skill and training. If you have any questions about the contents of this Brochure, please contact Gurpreet S. Chandhoke at (415) 983-0127. 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 VII Peaks Capital, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

Below is a summary of the material changes since the annual amendment to the Brochure dated March 30, 2017:

**Item 4. Advisory Business**—This section was updated to state that VII Peaks is advisor to the VII Peaks Direct Lending Fund. This section was also updated to add VII Peaks' assets under management as of December 31, 2017.

**Item 5. Fees and Compensation**—This section was updated to include the fees that VII Peaks receives related to the VII Peaks Direct Lending Fund.

**Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**—This section was updated to include the investment strategy of the VII Peaks Direct Lending Fund.

**Item 10. Other Financial Industry Activities and Affiliations**—This section was updated to reflect that VII Peaks' Supervised Persons are no longer registered representatives of Arete Wealth Management LLC.

**Item 11. Code of Ethics**—This section was updated to delete references to VII Peaks' joint venture with Arete Wealth Management LLC. VII Peaks is no longer pursuing the joint venture. Additionally, Arete Wealth Management no longer serves as dealer manager to the VII Peaks Co-Optivist Income BDC II Inc.

**Item 14. Client Referrals and Other Compensation**—This section was updated to delete references to the dealer manager agreement with Arete Wealth Management LLC.

Pursuant to SEC Rules, VII Peaks Capital, within 120 days after its fiscal year end of December 31, will ensure that clients receive either a Brochure along with a Summary of Material Changes, or a Summary of Material Changes accompanied by an offer to provide a full copy of this Brochure. To the extent that the firm experiences material changes in the future, clients will receive the Summary of Material Changes with a copy of this Brochure, or the Summary of Material Changes accompanied by an offer to provide a full copy of this Brochure.

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

VII Peaks Capital, LLC is a registered investment adviser focusing primarily on corporate debt investments and venture capital investments. VII Peaks Capital was formed in April 2009, and has been in business as a registered investment adviser since July 2010. Gurpreet S. Chandhoke and Stephen F. Shea are the principal owners of VII Peaks Capital.

VII Peaks Capital provides discretionary advisory services to:

- the VII Peaks Venture Capital II, LLC, VII Peaks Venture Capital V, LLC and VII Peaks Venture Capital VI, LLC (collectively, the “Venture Funds”), which are not registered with under the Investment Company Act of 1940 in reliance on an exemption under Section 3(c)(1) of the Investment Company Act;
- the VII Peaks-KBR Co-Optivist B Fund I, LLC, VII Peaks-KBR Co-Optivist B Fund II, LLC and VII Peaks-KBR Co-Optivist R Fund I, LLC (collectively, the “Co-Optivist Funds”), which are not registered under the Investment Company Act of 1940 in reliance on an exemption under Section 3(c)(1) of the Investment Company Act;
- the VII Peaks Co-Optivist Income BDC II, Inc. (“BDC”), a closed-end investment company registered under the Investment Company Act of 1940
- the VII Peaks Direct Lending Fund, a series of VII Peaks Funds LLC (“Direct Lending Fund”), a fund that is not registered under the Investment Company Act of 1940 in reliance on an exemption under Section 3(c)(1) of the Investment Company Act; and
- VII Peaks BDC Investors, LLC, which is not registered under the Investment Company Act of 1940 in reliance on an exemption under Section 3(c)(1) of the Investment Company Act;

The Venture Funds, Co-Optivist Funds, Direct Lending Fund and VII Peaks Co-Optivist Income BDC II, Inc. are collectively referred to as the “Funds”. The Funds and VII Peaks BDC Investors, LLC are VII Peaks Capital’s current clients.

Although VII Peaks Capital does not currently provide investment advisory services to separately managed accounts, it plans to in the future.

VII Peaks Capital tailors its advisory services by constructing portfolios that seek to meet the investment objectives, guidelines and other terms of each particular Fund it manages.

The Venture Funds invest in the equity securities of early stage private technology growth companies. These investments leverage the background and experience that the principals have in the technology industry through a collective career of investment banking and capital raising activities.

The Co-Optivist Funds and the BDC invest generally in discounted corporate debt and equity-linked debt securities of public and private companies that trade on the secondary loan market for institutional investors and provide distributions to investors. They may also invest in the equities of companies that fit their investment objective of investing in undervalued companies that can benefit from a restructuring. At the same time, the Co-Optivist Funds and the BDC actively work with the target company’s management to restructure the underlying securities and improve the liquidity position of the target company’s balance sheet. They employ a proprietary “Co-

Optivist™ approach that entails proactively engaging the target company management on average 24 months prior to a redemption event (typically a put or maturity event) to create an opportunity for growth in the investments.

The Direct Lending Fund's investment objective is to generate current income and capital appreciation by making senior secured first lien loans, structured obligations and preferred equity investments in private businesses.

This Brochure describes the business of VII Peaks Capital. Certain sections will also describe the activities of its Supervised Persons. Supervised Persons are any of VII Peaks Capital's members and employees, or any other person who provides investment advice on VII Peaks Capital's behalf and is subject to VII Peaks Capital's supervision or control.

VII Peaks Capital had \$48,791,619 of assets under management on a discretionary basis as of December 31, 2017. VII Peaks does not manage any investments on a non-discretionary basis. VII Peaks Capital is not the sponsor or manager of a wrap fee program.

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

***Separate Accounts.*** VII Peaks Capital generally receives an annual asset based fee (up to 1.5% per annum) from each separate account that it manages, and a fee based on the performance of the account ("incentive fee") of up to twenty percent (20%) of the net profit of each client account, subject to a preferred return of up to eight percent (8.00%) and a "high water mark."

The Separate Accounts Fee is calculated by subtracting the amount of the annual investment management fees that is retained by VII Peaks Capital and charged to a client as an expense of the Funds from the Gross Annual Investment Advisory Fee. The Net Annual Investment Advisory Fee is the fee that will be paid directly by a client for the services provided by VII Peaks Capital.

With respect to the separate accounts, VII Peaks Capital's annual base fee is prorated and charged quarterly, in arrears, based upon the market value of the assets on the last day of the previous quarter. VII Peaks Capital's incentive fee is charged annually, in arrears, based on the net gains of the client's portfolio at the end of the calendar period.

A minimum of \$250,000 of assets under management will typically be required for services. All separate account fees and account minimums are negotiable.

In addition to VII Peaks Capital's investment management or other fee, separate accounts will also bear administrative, custodial, brokerage and similar transaction costs or expenses associated with the account, as each separate account client's investment management agreement provides.

Clients may make additions to and withdrawals from their account at any time, subject to VII Peaks Capital's right to terminate an account. Additions may be in cash or securities provided that VII Peaks Capital reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account.

VII Peaks Capital's fees are prorated through the date of termination and any remaining balance

is charged or refunded to the client, as appropriate.

***Co-Optivist Funds and the BDC.*** VII Peaks Capital generally receives an annual asset based fee from each Co-Optivist Fund that it manages, generally 1.5%-2% per annum of the value of the Fund's assets under management, charged quarterly in arrears. In addition, VII Peaks Capital is entitled to a special allocation of profits as described in the funds' offering materials.

***Direct Lending Fund.*** VII Peaks receives an annual asset based fee of 2% per annum of the sum of the Fund's net asset value plus the value of any assets purchased using leverage and an annual Performance Allocation equal to 20% of each investor's ratable share of the Direct Lending Fund's net realized and unrealized gains for such year in excess of a hurdle equal to 8% per annum, but only to the extent that such net gains exceed any unrecouped losses allocated to such investor (creating a "high water mark" effect with respect to gains and losses).

***Venture Funds.*** VII Peaks Capital receives a one-time asset based fee from each Venture Fund that it manages, based on the capital commitment of each investor, charged in advance at the time of investment. In addition, VII Peaks Capital is entitled to a special allocation of profits at the time the investment is realized. The amount of VII Peaks Capital's profit allocation is up to twenty percent (20%) as described in each Fund's agreement.

In addition to VII Peaks Capital's investment management fees and performance allocations, the Funds also bear all expenses incurred in connection with their operation and administration, including among other things, legal, accounting and audit fees and expenses, governmental fees and taxes and professional fees, communications with investors and all other reasonable costs related to the management and operation of each Fund.

For more information about the fees charged by the Funds, consult each fund's offering documents.

In order to further its Co-Optivist investing approach, VII Peaks Capital may receive compensation for serving on the board of one of the BDC's portfolio companies. Any compensation received in connection with this board membership would be transferred to the BDC and is identified on the BDC's financial statements as "Other Income." If VII Peaks Capital enters into any such arrangement in the future where it serves on the board of a fund portfolio company, VII Peaks Capital will transfer any compensation received to the appropriate fund thereby reducing any incentive that the board member may have to favor the portfolio company to the detriment of other portfolio companies.

***Other Income.*** The BDC, consistent with its investment strategy, makes loans to portfolio companies. In connection with these loans, VII Peaks Capital receives a due diligence fee from these potential portfolio companies to which VII Peaks would loan money. This may give VII Peaks Capital an incentive to recommend that the BDC make more loans than it otherwise would if VII Peaks Capital were not receiving such a fee. See Item 11 below for a further discussion regarding the conflicts of interest posed by the due diligence fee.

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

The performance fee charged by the Funds may be an incentive for VII Peaks Capital to make investments that are riskier or more speculative than would be the case absent a performance fee

arrangement. However, all of VII Peaks Capital's clients pay performance-based compensation. Therefore, VII Peaks Capital does not face any conflicts of interest associated with differing fee arrangements among clients.

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

VII Peaks Capital's current clients are the Funds. VII Peaks Capital expects to have separate account clients in the future.

### **Minimum Account Size and Minimum Investment Requirement**

As a condition for starting and maintaining a relationship, VII Peaks Capital generally imposes a minimum portfolio size of \$250,000 for separate accounts, as well as a minimum investment requirement in the Funds. VII Peaks Capital, in its sole discretion, may accept clients with smaller portfolios. For more information about minimum investments, refer to each fund's offering documents.

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

### **Methods of Analysis**

VII Peaks Capital's primary methods of analysis are fundamental, technical and cyclical.

Fundamental analysis involves the fundamental financial condition and competitive position of a company. VII Peaks Capital will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that VII Peaks Capital will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that VII Peaks Capital is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### **Investment Strategies**

The Co-Optivist Funds and the BDC employ a proprietary investment strategy of "cooperative activism," referred to as the VII Peaks Co-Optivist™ approach. The VII Peaks Co-Optivist™ approach involves investing primarily in discounted corporate debt securities of public companies that have a perceived risk of near-term liquidity issues, but have solid fundamentals and business prospects, including historical revenue growth, positive cash flow, and sufficient asset coverage.

The VII Peaks Co-Optivist™ approach includes proactively engaging the target company's management to help restructure the underlying corporate debt or equity securities and de-lever the target company's balance sheet and improve overall liquidity.

The Direct Lending Fund focuses on middle market companies with stable cash flow. VII Peaks believes there are relatively few finance companies focused on transactions involving middle market companies, and this is one factor that may allow VII Peaks to negotiate favorable investment terms.

VII Peaks employs an extensive underwriting process that includes a review of the prospects, competitive position, financial performance and industry dynamics of each potential portfolio company. In addition, we perform substantial due diligence on potential investments and seek to invest with management teams and/or private equity sponsors who have proven capabilities in building value. Similar to the Co-Optivist approach described above, VII Peaks offers managerial assistance to the Direct Lending Fund's portfolio companies, giving them access to VII Peaks' investment experience, direct industry expertise and contacts, and allowing us to continually monitor their progress.

VII Peaks structures the Direct Lending Fund's customized loan investments on a conservative basis with high cash yields, first and/or second lien security interests where possible, cash origination fees, and lower relative leverage levels.

With respect to the Funds and the BDC, VII Peaks Capital utilizes a proprietary process for selecting and implementing investments:

#### *Opportunity Identification*

VII Peaks Capital identifies targets based on VII Peaks Capital's investment criteria. VII Peaks Capital then establishes or maintains dialogue with management and financial advisors of top priority targets and bondholders of top priority targets. VII Peaks Capital also develops a preliminary investment thesis and short-form overview for top priority targets.

#### *Investment Committee*

The Investment Committee is presented with a short-form overview of top priority targets, and approves those targets for which VII Peaks Capital will proceed. VII Peaks Capital then performs in-depth company and industry due diligence and valuation analyses, and presents a final memorandum to the Investment Committee for approval.

#### *Portfolio Management*

Once the Investment Committee has given final approval, VII Peaks Capital acquires the complete position before approaching management to commence debt restructuring. In addition, VII Peaks Capital communicates with other stakeholders, including bondholders, to garner feedback on proposed terms for debt exchange. After considering such feedback, VII Peaks Capital begins communications with the target's financial advisors.

#### *Exit Investment*



After the restructuring event is public, VII Peaks Capital evaluates the investment exit opportunities. Depending on the market reaction to the restructuring event, VII Peaks Capital evaluates other potential transactions for additional returns before exiting the investment.

## **Risks**

The purchase of shares or interests in the Funds and the BDC involves significant risks. The following are the risks related to VII Peaks Capital's investment activities. The risks associated with a particular Fund and the BDC are detailed in their respective offering documents.

### **Risks Related to VII Peaks Capital and Its Business**

#### **Competition for investment opportunities.**

VII Peaks Capital competes for investments with other investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Moreover, alternative investment vehicles, such as hedge funds, also make investments in middle market private U.S. companies. As a result, competition for investment opportunities in private U.S. companies may intensify. Many competitors are substantially larger and have considerably greater financial, technical and marketing resources than VII Peaks Capital. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to VII Peaks Capital. In addition, some competitors may have higher risk tolerances or different risk assessments than VII Peaks Capital. These characteristics could allow competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than VII Peaks Capital. VII Peaks Capital may lose investment opportunities if it does not match competitors' pricing, terms and structure. If VII Peaks Capital is forced to match competitors' pricing, terms and structure, it may not be able to achieve acceptable returns on investments or may bear substantial risk of capital loss. A significant part of VII Peaks Capital's competitive advantage stems from the fact that the market for investments in private U.S. companies is under served by traditional commercial banks and other financial sources. A significant increase in the number and/or the size of competitors in this target market could force VII Peaks Capital to accept less attractive investment terms. Furthermore, many of the competitors may have greater experience operating under, or are not subject to, the same regulatory restrictions.

#### **Competition for assets to manage.**

VII Peaks Capital faces competition from a range of competitors, including mutual funds, private equity, hedge funds, and leveraged buyout funds, for assets to manage. Many of these entities may have greater financial resources or access to financing on more favorable terms. The Funds' operating expenses are relatively fixed, and will have a higher expense ratio, which will decrease returns to shareholders, to extent VII Peaks Capital is unable to increase the amount of assets it manages.

Price declines in the medium- and large-sized corporate leveraged loan market may adversely affect the fair value of the Funds' portfolios, reducing asset values through increased net unrealized depreciation.

Prior to the onset of the financial crisis that began in 2007, securitized investment vehicles, hedge

funds and other highly leveraged non-bank financial institutions comprised the majority of the market for purchasing and holding senior and subordinated debt. As the trading price of the loans underlying these portfolios began to deteriorate beginning in the first quarter of 2007, many institutions were forced to raise cash by selling interests in performing assets in order to satisfy margin requirements or the equivalent of margin requirements imposed by their lenders and/or, in the case of hedge funds and other investment vehicles, to satisfy widespread redemption requests. This resulted in a forced deleveraging cycle of price declines, compulsory sales, and further price declines, with falling underlying credit values, and other constraints resulting from the credit crisis generating further selling pressure.

Conditions in the medium and large-sized U.S. corporate debt market may experience similar disruption or deterioration in the future, which may cause pricing levels to similarly decline or be volatile. As a result, the investments managed by VII Peaks could experience a decline through an increase in unrealized depreciation and incurrence of realized losses in connection with the sale of the investments, which could have a material adverse impact on VII Peaks Capital's business, financial condition and results of operations.

**Purchase of debt securities of financially stressed companies creates an enhanced risk of substantial loss or loss of entire investment.**

VII Peaks may purchase debt or equity securities of companies that are experiencing significant financial or business stress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such purchases involve a substantial degree of risk and may not show any return for a considerable period of time.

In fact, many of these instruments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial stress is unusually high. There is no assurance that VII Peaks Capital will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Funds invest, they may lose their entire investment or may be required to accept cash or securities with a value less than the original investment. Under such circumstances, the returns generated from these investments may not compensate shareholders adequately for the risks assumed.

**Uncertainty as to the value of portfolio investments**

VII Peaks Capital expects that a substantial portion of its investments will not trade on a national securities exchange or actively trade on a secondary market. As a result, VII Peaks Capital will value these securities quarterly or monthly at fair value as determined in good faith by VII Peaks Capital, or in the case of the BDC, by the Board of Directors, or a committee thereof, as applicable.

Certain factors that may be considered in determining the fair value include the nature and realizable value of any collateral, a portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly-traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may

differ materially from the values that would have been used if a ready market for these non-traded securities existed. Due to this uncertainty, a fair value determination may cause a portfolio company's value on a given date to be materially understated or overstated compared with the value that may ultimately be realized upon the sale of the portfolio company.

**Ability to achieve investment objective depends on ability to manage and support investment process. If VII Peaks were to lose a member of its senior management team, the ability to achieve the investment objective could be significantly harmed.**

The Funds and the BDC depend on the investment expertise, diligence, skill and network of business contacts of VII Peaks Capital. They also depend, to a significant extent, on VII Peaks Capital's access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. VII Peaks Capital will evaluate, negotiate, structure, close, monitor and service the Funds' and BDC's investments. The success of the Funds depends to a significant extent on the continued service and coordination of VII Peaks Capital, including its key professionals. The departure of a significant number of VII Peaks Capital's key professionals could have a materially adverse effect on our ability to achieve our investment objective. In addition, there can be no assurance VII Peaks Capital will remain as the Funds' investment adviser and sub-adviser or that VII Peaks Capital will continue to have access to its investment professionals or information and deal flow.

**Members of the management team may engage in other competing activities.**

VII Peaks Capital's officers anticipate devoting a significant portion of time to the affairs of VII Peaks and performing services for other entities. As a result, there may be conflicts between the Funds on the one hand, and VII Peaks Capital, including members of its management team, on the other, regarding the allocation of resources to the management of day-to-day activities. Further, the officers are involved in other ventures, some of which may compete for investment opportunities and may be incentivized to offer investment opportunities to the other ventures.

**VII Peaks may receive incentive compensation even if there is a loss due to a decline in the value of a portfolio.**

VII Peaks Capital will be entitled to receive an incentive fee based on our net investment income regardless of any capital losses. In such case, the Funds may be required to pay an incentive fee for a fiscal quarter even if there is a decline in the value of a portfolio or if the Fund incurs a net loss for that quarter. See Items 5 and 6 for more information regarding VII Peaks Capital's fees and compensation and performance-based fees.

**The incentive fee may induce VII Peaks Capital to make speculative investments.**

The incentive fee to VII Peaks Capital may create an incentive for it to make investments on the Funds' behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to VII Peaks Capital is determined may encourage it to use leverage to increase the return on our investments.

**Security breaches and other disruptions could compromise information and expose VII Peaks Capital and the Funds to liability, which would cause business and reputation damage.**

In the ordinary course of our business, VII Peaks Capital stores sensitive data, including proprietary business information and that of the portfolio companies, and personally identifiable information of directors, officers and employees, in our computer systems. The secure processing, maintenance and transmission of this information is important to operations and business strategy. Despite security

measures, the information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt operations, and damage reputations, and cause a loss of confidence in VII Peaks Capital's products and services, which could adversely affect its business.

### **Risks Related to Target Investments**

#### **Investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.**

##### **Market Risks**

The profitability of a significant portion of VII Peaks Capital's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that VII Peaks Capital will be able to predict those price movements accurately.

##### **General Risk of Loss**

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss. We invest primarily in senior secured loans, second lien secured loans and subordinated debt of private U.S. companies. We may also invest in securities of foreign companies.

***Senior secured loans and second lien secured loans.*** There is a risk that any collateral pledged by portfolio companies in which we have taken a security interest may decrease in value over time or lose its entire value, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. To the extent our debt investment is collateralized by the securities of a portfolio company's subsidiaries, such securities may lose some or all of their value in the event of the bankruptcy or insolvency of the portfolio company. Also, in some circumstances, our security interest may be contractually or structurally subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Loans that are under-collateralized involve a greater risk of loss. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

***Subordinated debt.*** VII Peaks Capital's subordinated debt investments will generally rank junior in priority of payment to senior loans and will generally be unsecured. This may result in a heightened level of risk and volatility or a loss of principal, which could lead to the loss of the entire investment. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we will not receive any principal repayments prior to the maturity of some of our subordinated debt investments, such investments will be of greater risk than amortizing loans.

In addition, we invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as “junk,” have predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. They may also be difficult to value and illiquid.

***Equity investments.*** VII Peaks Capital may make select equity investments. In addition, when we invest in senior secured and second lien secured loans or subordinated debt, we may acquire warrants to purchase equity securities. The equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

***Non-U.S. securities.*** VII Peaks may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies, to the extent permitted by the Investment Company Act of 1940 (“1940 Act”). Because evidences of ownership of such securities usually are held outside the United States, we would be subject to additional risks if we invested in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise. Since non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected unfavorably by changes in currency rates and exchange control regulations.

***Privately held companies.*** VII Peaks Capital invests a portion of the Funds’ assets in privately held companies which presents certain challenges, including the lack of available information about these companies. Investments in private companies pose certain incremental risks as compared to investments in public companies including that they:

- have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors’ actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us; and generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our

executive officers, directors and members of VII Peaks Capital's management may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

In addition, investments in private companies tend to be less liquid. The securities of private companies are often not publicly traded or actively traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. These privately negotiated over-the-counter secondary markets may be inactive during an economic downturn or a credit crisis. In addition, the securities in these companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. If there is no readily available market for these investments and VII Peaks Capital is required to liquidate all or a portion them quickly, VII Peaks Capital may realize significantly less than the value at which purchased them. VII Peaks Capital may also face other restrictions on its ability to liquidate an investment in a portfolio company to the extent it has material nonpublic information regarding such portfolio company or where the sale would be an impermissible joint transaction. The reduced liquidity of VII Peaks Capital's investments may make it difficult to dispose of them at a favorable price, and, as a result, the Funds may suffer losses.

Finally, little public information generally exists about private companies and these companies may not have third-party debt ratings or audited financial statements. VII Peaks Capital's Funds must therefore rely on the ability of VII Peaks to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. If VII Peaks Capital is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and the Funds may lose money on these investments.

***Original Issue Discount Instruments.*** VII Peaks Capital may recommend that the Funds invest in original issue discount instruments. To the extent original issue discount constitutes a portion of the Funds' income, they will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash. Original issue discount instruments may have unreliable valuations because the accruals require judgments about collectability. Original issue discount instruments may create heightened credit risks because the inducement to trade higher rates for the deferral of cash payments typically represents, to some extent, speculation on the part of the borrower. For accounting purposes, cash distributions to stockholders representing original issue discount income do not come from paid-in capital, although they may be paid from the offering proceeds. Thus, although a distribution of original issue discount income comes from the cash invested by the stockholders, the 1940 Act does not require that stockholders be given notice of this fact. In the case of PIK, "toggle" debt, the PIK election has the simultaneous effects of increasing the assets under management, thus increasing the base management fee, and increasing the investment income, thus increasing the incentive fee. Original issue discount creates risk of non-refundable cash payments to the Advisor based on non-cash accruals that may never be realized.

***Options.*** Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. VII Peaks Capital may pay or collect a premium for buying or selling an option for the Funds. VII Peaks will transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not

increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

**Risks associated with changes in interest rates.**

The investments that VII Peaks selects for the Funds and the BDC are subject to financial market risks, including changes in interest rates. General interest rate fluctuations may have a substantial negative impact on the Funds' investments and investment opportunities and, therefore may have a material adverse effect on investment objectives and rate of return on invested capital.

**Investment in privately held companies presents certain challenges, including the lack of available information about these companies.**

VII Peaks invests a portion of the Funds' and BDC's assets in privately held companies. Investments in private companies pose certain incremental risks as compared to investments in public companies. Investments in private companies tend to be less liquid than publicly held companies. They are not publicly-traded or actively traded on the secondary market and are, instead, traded on a privately negotiated over-the-counter secondary market for institutional investors. In addition, such securities may be subject to legal and other restrictions on resale.

Private companies also have reduced access to the capital markets, resulting in diminished capital resources and the ability to withstand financial distress. As a result, these companies, which may present greater credit risk than public companies, may be unable to meet their obligations under their debt securities. Second, the investments themselves often may be less liquid.

**Certain of VII Peaks' Funds use leverage, which increases the volatility of the Funds.**

The Funds, including the Direct Lending Fund, use leverage directly and indirectly through the use of one or more financing vehicles. The use of leverage will increase the volatility of the Fund. Leverage generally magnifies both the Fund's opportunities for gain and its risk of loss from a particular investment. While the use of borrowed funds will increase returns if the Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage will decrease returns if the Fund fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Fund than if the Fund were not leveraged.

The extent to which a Fund uses leverage may have important consequences to investors, including, but not limited to, the following: (i) greater fluctuations in the net assets of the Fund, (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional investments, distributions, or other purposes (for example, the terms of the Fund's leverage facility may require payment on the facility in priority to payment to the Fund's investors), (iii) to the extent that the Fund revenues are used to make principal payments, investors may be allocated income (and therefore incur tax liability) in excess of cash available for distribution, (iv) in certain circumstances the Fund may be required to prematurely harvest investments to service its debt obligations, and (v) limitations on the flexibility of the Fund to make distributions to investors or sell assets that are pledged to secure the indebtedness. There can also be no assurance that the Fund will have sufficient cash flow to meet its debt service obligations. As a result, the Fund's exposure to losses may be increased due to the illiquidity of its investments generally and the leverage it has incurred.

**Certain of VII Peaks' Funds use leveraged investments, which increases the credit risk inherent in each investment.**

The companies in whose securities a Fund will invest may be highly leveraged, thereby increasing the credit risk inherent in each investment. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. In addition, this leverage could accelerate and magnify declines in the value of the Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, the companies in which the Fund will invest generally will not be rated by a credit rating agency.

**Item 9. Disciplinary Information**

VII Peaks Capital is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management.

In October, 2015, Relativity Holdings, LLC ("Relativity") filed an emergency order with the U.S. Bankruptcy Court for the Southern District of New York ("Bankruptcy Court") compelling VII Peaks to pay \$30 million into the Court's registry and ordering VII Peaks to specifically perform its agreement to fund \$30 million to Relativity on or before October 20, 2015 consistent with an Equity Commitment letter dated October 1, 2015. The court entered an ex parte order issuing a temporary restraining order against VII Peaks on October 20, 2015.

The temporary restraining order was dissolved pursuant to a Stipulation and Agreed Order entered by the Bankruptcy Court on October 28, 2015, pursuant to which the parties agreed to engage in negotiations to resolve their dispute. The negotiations did not result in a settlement.

On February 2, 2016, at the hearing on confirmation Relativity's plan, VII Peaks and Relativity reached a memorandum of understanding regarding a settlement of Relativity's claims against the VII Peaks and the Fund, as well as the Fund's objection to the plan. On March 1, 2016, VII Peaks filed a motion for summary judgment to dismiss Relativity's adversarial complaint. On March 18, 2016, the Bankruptcy Court approved Relativity's plan of reorganization.

On November 2, 2016 Relativity filed a 9019 motion with the New York Bankruptcy Court with an entry of order to settle with VII Peaks Capital LLC. VII Peaks and Relativity agreed to an Output Distribution Agreement between Relativity and Divine Distribution, LLC, an affiliate of the Adviser. Pursuant to the agreement, Relativity grants two US output distribution slots per year for five years for films to be distributed by Relativity in exchange for a prescribed fee and conditioned on the dismissal of the adversary proceeding and release of all outstanding claims as between the parties. The settlement agreement was withdrawn on January 23, 2017 by mutual agreement between VII Peaks and Relativity.

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

VII Peaks Capital is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. VII Peaks Capital has described such relationships and arrangements below.



## **Item 11. Code of Ethics**

VII Peaks has adopted a written code of ethics that governs the actions of its employees to help ensure that violations of the Federal Securities Laws regarding personal securities transactions do not occur and that the Firm meets its fiduciary duty to clients by dealing with them justly and equitably. This document also governs the personal securities transactions of its personnel.

VII Peaks' Code of Ethics is based on the principle that an advisor owes its clients a duty of undivided loyalty. As an investment adviser, VII Peaks Capital has a fiduciary responsibility to its clients. Clients' interests must always be placed first. Thus, the personnel of VII Peaks Capital must conduct their personal securities transactions in a manner that does not interfere, or appear to interfere, with any transaction for a client or otherwise takes unfair advantage of a client relationship. Personnel must not take inappropriate advantage of their positions. No personnel shall accept any gift or other thing of more than de minimis value from any person or entity that does business with or on behalf of VII Peaks Capital.

All personnel of VII Peaks Capital must adhere to these fundamental principles as well as comply with the specific provisions of the Code of Ethics. In particular, it shall be unlawful for any affiliated person of VII Peaks Capital, in connection with the purchase or sale, directly or indirectly, by such person of any security held or to be acquired by any client of the VII Peaks to:

- Employ any device, scheme or artifice to defraud the client;
- Make to the client any untrue statement of a material fact or omit to state to any client a material fact necessary in order to make the statement made, in light of the surrounding circumstances, not misleading;
- Engage in any act, practice or course of business that operates or would operate as a fraud or deceit on any client; or
- Engage in any manipulative practice with respect to any client.

VII Peaks prohibits employees from trading on material non-public information, either personally or on behalf of other individuals (including clients), and from communicating material non-public information to other individuals in violation of law.

VII Peaks Capital maintains a current restricted list of issuers of securities that it invests in. No Access Person shall purchase or sell, directly or indirectly, any security in which he or she has, or by reason of such transaction shall acquire, any direct or indirect Beneficial Ownership in any security that is on such list.

In accordance with Section 204A of the Advisers Act, VII Peaks Capital also maintains and enforces written policies reasonably designed to prevent the unlawful use of material non-public information by VII Peaks Capital or any of its Supervised Persons.

Clients and prospective clients may contact VII Peaks Capital at (415) 983-0127 to request a copy of its Code of Ethics.

### **Conflicts of Interest**

The conflicts of interest that may be encountered by VII Peaks Capital include those discussed below, although these discussions not describe all of the conflicts that may be faced by VII Peaks Capital, the Funds. Dealing with conflicts of interest is complex and difficult, and new and different

types of conflicts are likely to subsequently arise.

Conflicts of interest between the Funds and the various roles, activities and duties of VII Peaks Capital and its affiliates may occur from time to time. VII Peaks, its officers and other affiliates may act as a manager or general partner of other private or public entities, some of whom may have the same or a similar investment objective as the Funds. As a result, conflicts of interest between the Funds and the other activities of VII Peaks Capital and its affiliates may occur from time to time. None of the agreements or arrangements, including those relating to compensation, between the Funds, VII Peaks Capital, or its affiliates, is the result of arm's-length negotiations. As a result, there may be conflicts between Funds, on the one hand, and VII Peaks Capital, including members of its management team, on the other, regarding the allocation of resources to the management of our day-to-day activities.

Further, the officers of VII Peaks Capital are involved in other ventures, some of which may compete with the Funds for investment opportunities, including certain affiliated funds, and may be incentivized to offer investment opportunities to such other ventures rather than to us which would make it more difficult to achieve our investment objectives.

To the extent that the Funds compete with entities managed by VII Peaks Capital for a particular investment opportunity, VII Peaks Capital will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (1) its internal conflict-resolution and allocation policies, (2) the requirements of the Advisers Act, and (3) restrictions under the 1940 Act regarding co-investments with affiliates.

VII Peaks Capital's allocation policies are intended to ensure that opportunities are generally shared equitably with other investment funds managed by VII Peaks or its affiliates, particularly those involving a security with limited supply or differing classes of securities of the same issuer that may be suitable for several clients.

In order to further its Co-Optivist investing approach, VII Peaks Capital may receive compensation for serving on the board of one of the BDC's portfolio companies. Any compensation received in connection with this board membership would be transferred to the BDC and is identified on the BDC's financial statements as "Other Income." If VII Peaks Capital enters into any such arrangement in the future where it serves on the board of an BDC portfolio company, VII Peaks will transfer any compensation received to the BDC thereby reducing any incentive that the board member may have to favor the portfolio company to the detriment of other portfolio companies.

As noted above, VII Peaks charges an incentive fee to the Funds. This incentive fee to VII Peaks Capital may create an incentive for it to make investments on the Funds' behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to VII Peaks Capital is determined may encourage it to use leverage to increase the return on our investments.

As stated above, the BDC, consistent with its investment strategy, makes loans to portfolio companies. In connection with these loans, VII Peaks Capital receives a due diligence fee from these potential portfolio companies to which VII Peaks would loan money. This may give VII Peaks Capital an incentive to recommend that the BDC make more loans than it otherwise would if VII

Peaks Capital were not receiving such a fee. However, the Fund may not make loans if, as a result, more than 33 1/3% of its total assets would be lent to other persons, including other investment companies to the extent permitted by the 1940 Act or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC. This limitation does not apply to (1) the lending of portfolio securities, (2) the purchase of debt securities, other debt instruments, loan participations and/or engaging in direct corporate loans in accordance with its investment goals and policies, and (3) repurchase agreements to the extent the entry into a repurchase agreement is deemed to be a loan.

## **Item 12. Brokerage Practices**

For separate account clients, VII Peaks Capital generally recommends that they utilize the brokerage and clearing services of Fidelity Institutional Wealth Services, Charles Schwab & Co., Inc. and/or Pershing, LLC. VII Peaks Capital does not receive any compensation or other services for recommending these brokers.

Separate account clients may direct VII Peaks Capital in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and VII Peaks Capital will not seek better execution services or prices from other broker-dealers or be able to “batch” client transactions for execution through other broker-dealers with orders for other accounts managed by VII Peaks Capital (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, VII Peaks Capital may decline a client’s request to direct brokerage if, in VII Peaks Capital’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

VII Peaks Capital has full discretion in selecting broker-dealers for Fund transactions. Factors which VII Peaks Capital considers in selecting broker-dealers for separate account client’s trades include their respective financial strength, reputation, execution, pricing, research and service.

The commissions paid by VII Peaks Capital’s clients comply with VII Peaks Capital’s duty to obtain “best execution.” The Funds may pay commissions that are higher than another qualified broker-dealer might charge to effect the same transaction where VII Peaks Capital determines that the commissions are reasonable in relation to the value of the brokerage and research 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 a broker-dealers’ services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. VII Peaks Capital seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions for each client generally will be effected independently, unless VII Peaks Capital decides to purchase or sell the same securities for several clients at approximately the same time. VII Peaks Capital will usually combine or aggregate such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among VII Peaks Capital’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will

generally be averaged as to price and allocated among VII Peaks Capital's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that VII Peaks Capital determines to aggregate client orders for the purchase or sale of securities, including securities in which VII Peaks Capital's Supervised Persons may invest, VII Peaks Capital generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. VII Peaks Capital does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that VII Peaks Capital determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, VII Peaks Capital may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist VII Peaks Capital in its investment decision-making process. Such research generally will be used to service all of VII Peaks Capital's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because VII Peaks Capital does not have to produce or pay for the products or services.

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

For those clients to whom VII Peaks Capital provides investment management services, VII Peaks Capital monitors those portfolios as part of an ongoing process. VII Peaks Capital's portfolio managers review client accounts on an as needed basis depending on market conditions. These reviews are designed to monitor and analyze client transactions, positions, and investment levels. The reviews are conducted by Gurpreet S. Chandhoke.

Separate account clients are provided with regular summary account statements directly from the broker-dealer or custodian for the client accounts. Clients may also receive monthly and/or quarter unaudited financial statements and investor reports. Annually, investors in the Funds will receive audited financial statements. In addition, a Portfolio Management's discussion letter regarding the results of operations, management, market environment, investment performance and other matters

will also be included. Additional reports may be available upon request of the clients. Clients should compare the account statements they receive from their broker-dealer or custodian with those they receive from VII Peaks Capital.

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

VII Peaks Capital is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, VII Peaks Capital is required to disclose any direct or indirect compensation that it provides for client referrals.

Separately, VII Peaks receives revenue in the form of due diligence fees that are charged to portfolio companies to which the Funds extend loans.

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

VII Peaks Capital maintains custody of its clients' assets with qualified custodians, currently US Bank, Millennium Trust Company, and Morgan Stanley.

VII Peaks Capital, as the Funds' and BDC's manager and investment manager with full power of attorney is deemed to have "custody" of the Funds' and BDC's assets. VII Peaks Capital employs a reputable, PCAOB<sup>1</sup>- registered independent accountant that performs an annual audit of the Funds' financial statements in accordance with generally accepted accounting principles, which are then sent to each investor in the Funds within 120 days from the end of the applicable fiscal year.

Account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from VII Peaks Capital. When clients have questions about their account statements, they should contact VII Peaks Capital or the qualified custodian preparing the statement.

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

VII Peaks Capital is given the authority to exercise discretion on behalf of clients. VII Peaks Capital is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. VII Peaks Capital is given this authority through a power-of-attorney included in the agreement between VII Peaks Capital and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). VII Peaks Capital takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made
- The broker-dealer to be used; and
- The commission rates to be paid to such broker-dealers.

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

VII Peaks Capital invests primarily in securities that do not have any voting power. Therefore, VII

Peaks Capital does not generally vote any proxies. If VII Peaks Capital were to obtain securities with voting power, it has written policies and procedures as to the handling, research, voting and reporting of proxy voting.

If you would like to receive a copy of VII Peaks Capital's Proxy Voting Policies and Procedures or its proxy voting record, contact Rudolph Galera at (415) 983-0127.

## **Item 18. Financial Information**

VII Peaks Capital does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. However, it does have discretionary authority and custody of client securities. Therefore, VII Peaks Capital is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. The adviser is currently not operating at a profit. The adviser's ability to procure additional capital is not assured. This may present a risk that the adviser may not be able to satisfy its contractual obligations to clients.

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<sup>1</sup> PCAOB is the Public Company Accounting Oversight Board, a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.