



Item 1 – Cover Page

CAPSTONE INVESTMENT ADVISORS, LLC

PART 2A OF FORM ADV: FIRM BROCHURE

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This brochure ("Brochure") provides information about the qualifications and business practices of Capstone Investment Advisors, LLC ("Capstone US"). If you have any questions about the contents of this brochure, please contact Capstone at (212) 232-1470. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training. Additional information about Capstone is also available on the SEC's website at www.adviserinfo.sec.gov.



Item 2 – Material Changes

Below is a summary of material changes made as part of the other-than-annual amendment filing, dated August 2017. Capstone is discussing only material changes since the last brochure.

1. Capstone US began managing CF Capstone Global Equity Fund Limited, a Cayman exempted corporation.
2. On July 1, 2017, Capstone, through common control, acquired management control of Capstone Investment Advisors (Netherlands), B.V. ("Capstone Netherlands"), a Dutch private company with limited liability that serves as Trading Adviser to DDA (as defined below). Capstone US serves as investment manager to DDA. DDA is comprised of Capstone Diversified Dynamic Alpha Fund, LLC., a Delaware limited liability company (the "DDA Master Fund"), and its feeder fund, Capstone Diversified Dynamic Alpha Fund, Ltd., an exempted corporation incorporated under the laws of the Cayman Islands (the "DDA Feeder Fund"). The DDA Master Fund invests all of its investable assets through three wholly-owned sub-funds, Capstone Long Term Fair Value Fund, LLC, Capstone Discretionary Global Macro Fund, LLC, and Capstone Systematic Global Macro Fund, LLC, each of which is a Delaware limited liability company (together with the DDA Master Fund and the DDA Feeder Fund, "DDA"). Capstone Netherlands has previously and continues to serve as the Trading Advisor to each DDA entity. Additionally, as of July 1, 2017, Capstone Netherlands provides subadvisory services to Blenheim Commodity Fund, LLC and Blenheim Energy Opportunities Fund, LLC, (together, the "Blenheim Funds") both Delaware limited liability companies.

Capstone recommends that you read this Brochure in its entirety. If Capstone makes any material changes to this Brochure this Item will be revised to include a summary of such changes.



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Item 4 – Advisory Business

Capstone Investment Advisors, LLC (“Capstone US”) is a Delaware limited liability company founded by Paul Britton on March 8, 2007. The company’s principal owner is Mr. Britton.

Capstone Investment Advisors (UK), LLP (“Capstone UK”), Capstone Investment Advisors (Netherlands), B.V. (“Capstone Netherlands”), together with Capstone US (collectively, “Capstone”) trades globally across equities, fixed income, FX, and commodities. Capstone is a multi-strategy investment manager that focuses on relative value trading with a volatility bias. Capstone has a quantitative approach to trading and our business is model driven with a qualitative overlay.

Through its three platforms, CVM, DDA (defined below), and Solutions (each as defined below), Capstone seeks to capitalize on perceived inefficiencies in the pricing of volatility in target derivative markets. Through CVM, Capstone aims to generate alpha through a combination of “Risk-on” and “Risk-off” strategies. Capstone’s multi-strategy volatility strategy is currently offered through CVM, a pooled investment vehicle. The strategy, or specific components thereof, may in the future be offered through managed accounts or single investor vehicles.

Through its Solutions platform, Capstone manages primarily customized single investor vehicles and one comingled fund structure. These funds are separate from the multi-strategy volatility strategy, and are generally offered through customized mandates that are tailored to the individual needs of clients as they relate to equity replacement strategies, tail protections strategies, and opportunistic strategies.

On July 1, 2017, Capstone, through common control, acquired management control of Capstone Investment Advisors (Netherlands), B.V. (“CIA Netherlands”), a Dutch private company with limited liability that serves as Trading Adviser to DDA (as defined below). Capstone US serves as investment manager to DDA. DDA is comprised of Capstone Diversified Dynamic Alpha Fund, LLC., a Delaware limited liability company (the “DDA Master Fund”) and its feeder fund, Capstone Diversified Dynamic Alpha Fund, Ltd., an exempted corporation incorporated under the laws of the Cayman Islands (the “DDA Feeder Fund”). The DDA Master Fund invests substantially all of its assets through three wholly-owned sub-funds, Capstone Long Term Fair Value Fund, LLC, Capstone Discretionary Global Macro Fund, LLC, and Capstone Systematic Global Macro Fund, LLC, each of which is a Delaware Limited Liability Company (together with the DDA Master Fund and the DDA Feeder Fund, “DDA”). CIA Netherlands has previously and continues to serve as the Trading Advisor to each DDA entity. Through DDA, Capstone Netherlands employs a diversified global macro strategy that allocates capital to various asset classes, investment strategies, and investment styles. This global macro strategy is currently managed through a pooled investment vehicle and two sub-advisory relationships.

As of July 1, 2017, Capstone had approximately \$4,794,070,678 of net assets under management on a discretionary basis.

Capstone serves as the investment management company with discretionary trading authority to private pooled investment vehicles that are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). The Funds include:

- Capstone Vol (US), LP, a Delaware limited partnership (“CVUS”), Capstone Vol (Offshore) Limited, an exempted company incorporated under the laws of the Cayman Islands (“CVOL”), and Capstone Volatility Master (Cayman) Limited, an exempted company



incorporated under the laws of the Cayman Islands ("Capstone Volatility Master"). CVUS, CVOL, CVIL (defined below) and CVM are collectively referred to herein as the "CVM". Capstone UK serves as a sub-advisor to CVM.

- Capstone Diversified Dynamic Alpha Fund, LLC., a Delaware limited liability company (the "DDA Master Fund") and its feeder fund, Capstone Diversified Dynamic Alpha Fund, Ltd., an exempted corporation incorporated under the laws of the Cayman Islands (the "DDA Feeder Fund"). The DDA Master Fund invests substantially all of its assets through three wholly-owned sub-funds, Capstone Long Term Fair Value Fund, LLC, Capstone Discretionary Global Macro Fund, LLC, and Capstone Systematic Global Macro Fund, LLC, each of which is a Delaware Limited Liability Company (together with the DDA Master Fund and the DDA Feeder Fund, "DDA").
- CPP-2012-1 Fund Limited, an exempted company incorporated under the laws of the Cayman Islands (the "CPP 2012").
- Capstone Income Opportunities, Ltd., an exempted company incorporated under the laws of the Cayman Islands and Capstone Income Opportunities Feeder Fund Limited, an exempted company incorporated under the laws of the Cayman Islands (together, "CIO").
- Capstone Income Opportunities II, Ltd., an exempted company incorporated under the laws of the Cayman Islands ("CIO II").
- CF Capstone Fund Limited, an exempted company incorporated under the laws of the Cayman Islands ("CF Capstone").
- CF Capstone Global Equity Fund Limited, an exempted company incorporated under the law of the Cayman Islands ("CF Global Equity").
- Capstone ASFA Ltd. an exempted company incorporated under the laws of the Cayman Islands ("ASFA").
- Capstone Equity Replacement Master Fund Ltd., Capstone Equity Replacement Fund (Cayman) Ltd. each an exempted company incorporated under the laws of the Cayman Islands, and Capstone Equity Replacement Fund (US) LP, a Delaware limited partnership (collectively referred to herein as the "Equity Replacement Fund" or "CER").
- Capstone Pi Sigma Fund (US) LP, a Delaware limited partnership ("Pi Sigma").
- KS-Capstone Fund Limited, an exempted company incorporated under the laws of the Cayman Islands ("KS-Capstone" and together with the CPP 2012, CIO, CIO II, CF Capstone, CF Global Equity, ASFA, CER, and Pi Sigma, the "Solutions Accounts").

Capstone also provides subadvisory services on behalf of a registered investment advisor to BMO Alternative Strategies Fund, a corporation registered under the Investment Company Act of 1940, as amended (the "Company Act"). Together, this account and the Funds are referred to herein as "Accounts".

Additionally, Capstone Netherlands provides subadvisory services to Blenheim Commodity Fund, LLC and Blenheim Energy Opportunities Fund, LLC, (together, the "Blenheim Funds"), both Delaware limited liability companies.



As used herein, the term "client" generally refers to each Account.

Capstone is registered with the SEC as an investment adviser. Capstone has full discretion in all investment decisions made on behalf of the Funds. Investment advice is provided directly to the Funds according to each Fund's particular investment objectives and not individually to each Fund's investors.

Capstone Fund Services, LLC ("CFS"), a Delaware limited liability company affiliated with Capstone, serves as the general partner of CVUS and is the manager of Capstone Volatility Intermediate (Cayman) Limited, an exempted company incorporated under the laws of the Cayman Islands ("CVIL"), which invests substantially all of its assets in CVM.

Capstone Fund Services II, LLC ("CFS II"), a Delaware limited liability company affiliated with Capstone, serves as the general partner of Pi Sigma, the Equity Replacement Fund's US feeder, and as manager to DDA.

Capstone Investment Advisors (UK), LLP ("Capstone UK") is a London-based subsidiary of Capstone that has been appointed by Capstone as a sub-adviser to CVM. Capstone UK is authorized and regulated by the UK Financial Conduct Authority.

Capstone Netherlands is an Amsterdam-based affiliate under common control that acts as the Trading Adviser to DDA and the Blenheim Funds. Capstone US serves as investment manager to DDA.

Capstone US, Capstone Netherlands, and Capstone UK are filing a single Form ADV in reliance on the position expressed in American Bar Association, Business Law Edition, SEC No-Action Letter (January 18, 2012).

This Brochure generally includes information about Capstone and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.



Item 5- Fees and Compensation

Compensation received by Capstone and/or an affiliate for their investment advisory services to the Funds is comprised of management fees and performance-based fees or allocations. As described below, the fees are generally deducted directly from the applicable Fund's account. Note that some Fund investors may pay more or less than other Fund investors for the same management services, depending, for example, on when a Fund investor subscribes or the total size of its investment with Capstone. In this regard, Capstone may also waive or modify fees and performance compensation for Fund investors that are members, employees or affiliates of Capstone, relatives of such persons and certain large or strategic investors.

CVM

For its investment management services to CVM, Capstone is generally entitled to receive a management fee at an annual rate (up to 2.0%) of the month-end net asset value ("NAV") of each investor's capital account balance or series of shares, as applicable. When CVM's month end net asset value is greater than or equal to \$4 billion, the management fee charged to investors with quarterly liquidity will be reduced by 3%.

The management fee is generally paid in arrears as of the end of each calendar month. Capstone has agreed to reduce the management fee paid by certain strategic investors through side letter arrangements.

CFS is generally entitled to receive an allocation of profits ("Performance Compensation") on either a quarterly or annual basis (and upon withdrawals from a feeder fund) of up to 20% of the net appreciation in NAV of CVM, subject to the individual investor's high water mark.

Capstone US generally waives its right to management fees and, CFS generally waives its right to Performance Compensation with respect to investments by principals, employees and affiliates of Capstone.

SOLUTIONS ACCOUNTS - EQUITY REPLACEMENT FUND

For its investment management services to CER, Capstone is generally entitled to receive a management fee at a certain annual rate of the month-end NAV of each investor's capital account balance or series of shares, as applicable. The management fee is generally paid in arrears as of the end of each calendar month.

Capstone currently offers a founders share class with a management fee rate of 0.65% with no Performance Compensation. After September 30, 2017, the standard management fee rate will be 0.75% with no performance compensation. Capstone may reduce the management fee paid by certain strategic investors through side letter arrangements.

Capstone generally waives its right to management fees and Performance Compensation with respect to investments by principals, employees and affiliates of Capstone.

SOLUTIONS ACCOUNTS

Generally Capstone receives a monthly management fee from each Solutions Account (other than CER) as set forth in the respective offering document of each Solutions Account. Generally, the management fee for a Solutions Account is either a flat annual minimum fee or is calculated



as a percentage of one or more of the following: (i) assets under management; (ii) notional asset value replaced; or (iii) risk adjusted exposure. Capstone also receives performance compensation from one of the Solutions Account calculated on the amount of profits generated in respect of the account or in relation to a benchmark, to be paid on an annual basis or upon a withdrawal from the account.

DDA

For its investment management services to DDA, Capstone is generally entitled to receive a management fee at an annual rate (up to 1.75%) of the average monthly net asset value ("NAV") of each investor's capital account balance or series of shares, as applicable. The management fee is generally paid in arrears as of the end of each calendar month. Capstone has agreed to reduce the management fee paid by certain strategic investors through side letter arrangements.

Capstone affiliates are generally entitled to receive Performance Compensation on an annual basis (and upon withdrawals) of up to 20% of the net appreciation in NAV of DDA, subject to the individual investor's high water mark.

Capstone generally waives its right to management fees and Performance Compensation with respect to investments by principals, employees and affiliates of Capstone.

OTHER TYPES OF FEES OR EXPENSES

In addition to management fees and performance compensation, the Funds also bear certain costs and expenses incurred directly or indirectly by each Fund in connection with the investments, operations and administration of Capstone and its affiliates attributable to asset management services and accounting and operational services. These expenses include such Fund's share of expenses incurred by Capstone and its affiliates for goods and services that benefit the Fund or are related to the Fund's investments, operation and administration, in each of the foregoing cases as determined by Capstone in its discretion.

Expenses include, without limitation, (i) clearing and executing broker fees, (ii) data feed and market data costs (and related software and hardware expenses such as Bloomberg), (iii) trading, research and risk management costs (and related software and hardware expenses, which includes the development by internal personnel of Capstone's proprietary software, such as the Capstone Trading Platform, expenses for external and internal connectivity and telecommunications, storage and server hardware and services), (iv) exchange membership expenses, (v) interest expenses, (vi) stock loan expenses, (vii) regulatory and self-regulatory fees, (viii) other transactional charges, (ix) expenses relating to cash management, (x) expenses relating to the continuing offering of interests or shares, when applicable, including the cost of producing and distributing offering memoranda and other marketing materials and expenses paid to third-party vendors, (xi) legal, compliance services provided by third party consultants, director, audit, accounting, tax, insurance premiums and custodial fees and expenses, including fees and expenses related to Capstone's compliance with its reporting requirements with respect to the Funds, including, but not limited to, Form PF and similar filings, (xii) fees and expenses of each Fund's administrator and the costs of printing and distributing periodic and annual reports and statements, (xiii) the *pro rata* costs of the salary, bonuses and benefits (including healthcare, time-off and severance expenses) payable by Capstone or Capstone UK to employees relating to the software and hardware development and maintenance described above ("Employee Reimbursement") and (iv) fees and expenses of software consultants engaged by Capstone for the benefit of the Funds. For the avoidance of doubt, Capstone rather than the Funds will bear expenses relating to travel.



With respect to technology related costs, it is important to note that technology is a deeply embedded quantitative component of the each Account's trading process. The strategies implemented by Capstone entail quantitative investment processes with qualitative overlays. Specifically, the technology development team creates internal modeling tools, automated trading execution platforms, automated hedging platforms, and other similar tools related to maximizing the trading efficiency of the Accounts.

Prior to January 2017, the Employee Reimbursement expense charged to each Account was equal to such Account's portion of the actual Employee Reimbursement expense incurred by Capstone as described above, in accordance with Capstone's Expense Allocation Policy (defined below). For the 2017, 2018 and 2019 calendar years, instead of charging the actual Employee Reimbursement expense described above, Capstone will charge an alternative annual set amount to CVM and the Solutions Accounts, in part intended to offset a portion of such expenses.

Capstone has a detailed expense allocation policy (the "Expense Allocation Policy") pursuant to which it determines whether expenses are borne by Capstone or the Accounts and how the expenses are allocated. To the extent that any expense is incurred for more than one Account, Capstone generally will allocate such expenses to the Accounts in accordance with its Expense Allocation Policy. In certain circumstances, Capstone may make such allocations on another basis deemed equitable by Capstone. Certain expenses may be billed directly to a particular Account whereas other expenses may be attributable to more than one Account. To determine appropriate allocation for expenses that are shared between Capstone and the Accounts, Capstone designates its employees directly involved with trading, research and risk (front office, middle office, back office, information technology development and risk) as "Trading Employees" and its management, legal/compliance, finance, investor relations and infrastructure employees as "Non-Trading Employees".

Capstone requires a large internal infrastructure, including, without limitation, physical servers and data lines ("Internal Servers and Connectivity"), to support its Trading Employees. While not requiring the same level of support, Non-Trading Employees also benefit from the Internal Servers and Connectivity. As such, Internal Servers and Connectivity expenses are allocated, first to Capstone based on an estimate of the amount such services would cost Capstone if obtained for the Non-Trading Employees on a standalone basis from service providers, with the remainder allocated to the Accounts (these expenses are then allocated between the Accounts as described below).

Other expenses, such as external connectivity and certain software expenses ("External Connectivity"), are utilized in a more equal fashion by Trading Employees and Non-Trading Employees. External Connectivity expenses are allocated on a *pro rata* basis between Capstone and the Accounts based on Non-Trading Employee and Trading Employee headcount, respectively (these expenses are then allocated between the Accounts as described below). Where an employee may serve in dual capacities as a Trading Employee and a Non-Trading Employee, the costs and expenses relating to such employees are shared equally by Capstone and the relevant Accounts.

Shared trading, research and risk expenses are typically allocated among Accounts based on a systematic headcount methodology. First, each front office employee is designated by the Account(s) such front office employee supports. When an expense is charged for goods or services that benefit or relate to more than one Account, Capstone will determine which front office employees use such service. Capstone will allocate such expenses to each Account in a formulaic manner, based on the number of front office employees linked to that Account who



use that particular service over the total number of front office employees utilizing the service. When allocating expenses relating to a front office employee that supports more than one Account, such employee's "charge" is generally split evenly among such Accounts. Capstone utilizes the above headcount methodology, as opposed to allocating expenses based on the relative net asset values of the various Accounts or by capital usage, because allocating by front office employee headcount more accurately reflects actual services used and certain Solutions Accounts may require significantly larger investments than the amounts actually traded to cover initial margin requirements. Alternatively, certain expenses relating to multiple Accounts (such as the external legal expense of negotiating an umbrella trading agreement) will be charged in equal amounts to the relevant Accounts.

The determination of whether an expense should be allocated and/or borne by a particular Account (and if so, in what proportion relative to other Accounts, as applicable) shall be final and binding on all investors.

Capstone has agreed to cap expenses or not to allocate certain expense types charged to certain Accounts or investors in certain Accounts. For allocation purposes, Capstone will pay for these waived expenses rather than charging additional amounts to the other Accounts.

CVM requires investors to commit to a lock-up of their investment for a specified time period. Such investors may withdraw their investment prior to the expiration of such lock-up period upon payment of a withdrawal charge assessed against such early withdrawal. Generally, the Board of Directors or CFS, as the case may be, may waive or reduce such withdrawal fee in its discretion, including to the extent it determines that the other investors will not be disadvantaged by trading expenses incurred by CVM in connection with the withdrawal or that such Fund will not otherwise be materially disadvantaged by such reduction or waiver.

Fund assets are from time to time invested in income-producing cash equivalents or other short-term instruments, including U.S. government and agency securities, money market funds, short-term bond mutual funds, repurchase and reverse repurchase agreements, certificates of deposits, banker's acceptances and commercial paper. In some cases, a Fund may pay a third-party advisor that manages a money market fund or other short-term investment vehicle or account an advisory fee on assets invested for cash management purposes in addition to the fees paid to Capstone, provided that no such additional fee shall be paid to Capstone or its affiliates.

Fund investors should review all fees charged by Capstone, broker-dealers and other third parties to fully understand the total amount of fees to be paid by the Funds. Please also see "Item 12—Brokerage Practices" below.

VARIANCE OF FUND TERMS

Capstone and/or a Fund have in the past and may from time to time in the future enter into "side letter" arrangements with certain Fund investors that may provide for terms of investment that are more favorable than the terms provided to other investor in such Funds, including, without limitation, with respect to fees, redemption rights, voting rights and information rights. Certain institutional CVM investors seek to use their ownership positions to promote good corporate governance and other responsible investment policies. Even though Capstone does not have a formal environmental, social and governance ("ESG") policy, given the non-fundamental nature of Capstone's trading program, Capstone ventures to address these sensitivities by agreeing to restrict certain securities at investor request. Capstone balances these requests with the responsibility it has to all investors of CVM and restricts securities after making a



determination that such action will not have a material impact on the CVM's overall trading program.



Item 6 – Performance Based Compensation and Side-by-Side Management

Capstone provides investment management advice to a variety of clients, including pooled investment vehicles, funds of one and a mutual fund. The fees charged to clients may include (i) both an asset based management fee and performance compensation, (ii) only an asset based (or investment exposure based) management fee and/or (iii) a minimum fixed fee arrangement. Some investment professionals at Capstone may manage accounts that charge performance compensation “side by side” with accounts that do not have such characteristics. These investment professionals may have an incentive to favor accounts in the first category over accounts in the second category.

Capstone is conscious of these potential conflicts and is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflicts of interest described above, as further described in Item 12.



Item 7 – Types of Clients

As described in “Item 4—Advisory Business” above, Capstone generally provides investment advice to private investment vehicles, including the Funds. Investment advice is provided directly to the Funds and not individually to the Fund investors. At any time, investors in the Funds generally include institutions (e.g. pension plans, endowments, trusts, estates, charitable organizations, foundations, etc.), fund-of-funds and high net worth individuals/family offices. Any minimum initial and additional subscription requirements are disclosed in the offering documents for the relevant Fund. Investors will be required to make certain representations when investing in a Fund through the execution of a subscription agreement and other documents. Interests and Shares in the Funds are not registered under the Securities Act), and such Funds are not registered under the Company Act. Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.



Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

Capstone has broad flexibility in selecting the assets traded and the investment strategies implemented by the relevant Fund(s) (within the general investment objective of the relevant Fund(s) as described in the relevant Fund offering document), and subject to any applicable investment guidelines that may be applicable to any investment vehicle). The investment strategies, approaches and techniques pursued by the Funds may evolve over time due to, among other things, the prevailing economic environment, market developments and trends, new regulatory constraints, the emergence of new or enhanced investment products, changing industry practice and technological innovation.

CVM

Capstone serves as investment manager to CVM (organized in a “master-feeder” structure) that focuses on volatility arbitrage. CVM’s primary objective is to achieve long term capital appreciation that is uncorrelated or negatively correlated with global equity markets. CVM seeks to achieve its investment objective primarily through a combination of “Risk-On” and “Risk-Off” strategies, as well as other investment strategies that Capstone believes are complementary to its overall portfolio construction. CVM seeks its trading opportunities globally, primarily in U.S., European and Asian markets. Currently the focus of CVM’s is multi-strategy volatility trading across the equity, fixed income, commodities, convertible bond and foreign exchange markets. CVM may also pursue volatility arbitrage opportunities outside of such markets and its focus may move to any such other markets away from the markets listed above. Capstone also undertakes strategies that are not solely specific to volatility arbitrage, including statistical arbitrage, systematic futures, risk arbitrage, convertible bond opportunities, fixed income relative value, including inflation, and event driven strategies. Capstone may add additional related strategies or modify existing strategies, as it sees fit.

Generally, volatility is the degree to which the daily movements of a financial asset deviate from its mean. The higher the volatility of an asset, the riskier its return stream is thought to be. Therefore, the higher the volatility, the more uncertain the finishing price of the asset, including in relation to the strike price of an option, and the more valuable the option since there is more possibility of being deep “in-the-money.” Historical or “realized” volatility is the volatility of a financial instrument based on historical returns. This phrase is used particularly to distinguish between the actual volatility of an instrument looking backward, and the future volatility predicted or “implied” by the market.

The objective of a volatility arbitrage strategy is to take advantage of perceived inefficiencies in the price of volatility implied in the pricing of different but related derivatives. Capstone bases its assessment of the expensiveness of volatility instruments on a variety of proprietary trading tools. Sometimes, CVM’s volatility trading strategies seek to profit from differences between Capstone’s assumption of the theoretical price of an option (mainly dependent on Capstone’s implied volatility assumption), the price of the option in the marketplace and Capstone’s assessment of how events in the near future are likely to affect the relationship between those two factors.

Capstone believes that to benefit fully from these inefficiencies it is important to practice a diverse mix of strategies that can capitalize on such inefficiencies opportunistically and in a



manner that each may act as a natural hedge to others in the portfolio. CVM's use of various "Risk-On" and "Risk-Off" strategies (as described below) is intended to create diversification across different market environments. The strategies are expected to have varying degrees of correlation (or negative correlation) to each other, which is intended to enable CVM to produce more consistent returns regardless of market conditions. Generally, each investment undertaken by Capstone on behalf of CVM, irrespective of the strategy pursuant to which it is made, is intended to be additive and complementary, and not solely to add diversification to the portfolio.

Capstone employs a mix of what it calls "Risk-On" strategies and "Risk-Off" strategies. By utilizing a mix of these strategies, and maintaining a flexible and liquid portfolio, Capstone seeks to take advantage of varying market environments, reducing concentration risk and providing a more non-correlated, market-neutral return.

By "Risk-On," Capstone means strategies that are employed during more benign, settled market environments, characterized by normal volumes and liquidity, lower than average volatility and correlation, more ample deal flow and an upward-sloping term structure of volatility. "Risk-Off" means the opposite: markets characterized generally by more tentative, fearful or panicky investor sentiment, higher than average volatility and correlation, scarcer liquidity, higher cash positions, lack of deal flow and a flat or downward sloping term structure of volatility.

The classifications of any strategy as either Risk-On or Risk-Off are reflective of Capstone's expectations over the long-term. However, most CVM strategies could be classified as either Risk-On or Risk-Off dependent on market conditions. Capstone does not generally seek to anticipate whether a market environment on any day or during any period is a Risk-On or Risk-Off market environment. Rather, Capstone intends to diversify its strategies and investments at all times so that it remains poised to take advantage of opportunities regardless of market environment, and to use risk management to execute stop-losses on out of favor strategies. However, as the markets change, CVM's balance of Risk-On and Risk-Off will fluctuate.

SOLUTIONS ACCOUNTS

Capstone serves as investment manager to the Solutions Accounts, a series of single investor funds and one comingled fund that, as a primary objective, provide "tail-risk protection", "equity replacement", or "opportunistic investing" with respect generally to global-equity, fixed-income, commodities and volatility markets or that provide passive strategies such as equity replacement.

Tail-Risk Protection

CPP 2012 (the "Tail Protection Fund") has two main objectives: the first objective is, upon the occurrence of a convexity event, to achieve a convex, non-linear payoff (a return profile that exhibits increasingly accelerating returns relative to the market correction). "Tail-risk" can be thought of as the risk of a rare and extreme move skewed to the downside that would have significant adverse impact on a traditional investment portfolio. The second objective is to limit the total annual fixed payments by the Tail Protection Fund on its investments to a pre-determined percentage of the NAV per share (the "Annual Premium Percentage", or "APP"), determined at the beginning of each year so as to be the total budget for the Tail Protection Fund each year in implementing its strategies. Because the pricing of derivatives to which each Tail Protection Fund is a party is expected to vary over time, there can be no assurances that a Tail Protection Fund will not be required to pay significantly more than the APP in any year.



Capstone intends to effectuate the objectives of the Tail Protection Fund's by holding a portfolio of derivative instruments that are intended to produce a convex payoff profile. The Tail Protection Fund employs various trading techniques, including trading options and futures and short selling. First, Capstone will formulate and develop general trade types designed to produce payoffs that best serve the objective of the Tail Protection Fund – its tactics and tactical methods, as described below. Second, Capstone's proprietary models will regularly review the universe of tactics to determine the optimal portfolio to be held by the Tail Protection Fund at any given time. This process will seek to identify instruments with a relatively low cost of carry relative to the convexity of their return profile across U.S., European and Asian equity derivatives markets. Finally, once the models have reduced the possible investment universe to the tactics that provide what it determines deliver the best risk-reward at any given time, Capstone makes the qualitative determination as to the allocation among such tactics. As indicated above, the Tail Protection Fund employs different tactics. "Tactics" are tactical methods applied to specific derivative products, underlyings and expiries. Representative examples of tactics may include "one-month straddle on S&P 500 delta neutral", "one-month straddle on Nikkei delta neutral", "three-month S&P 500 Variance delta neutral" and "six-month S&P 500 Variance delta neutral".

While generally following the same investment strategy, the Tail Protection Fund provides its investor the ability to tailor the management of its account through investment and risk guidelines and other specialized terms.

Equity Replacement

Capstone takes a two-pronged approach to equity replacement by blending passive (beta) and active (alpha) strategies to diversify the sources of return and target a more balanced return profile. The active component can add income during a low volatility market. Each Solutions Account that employs an equity replacement strategy (each, an "Equity Replacement Solutions Account") will use Capstone's proprietary models and derivatives expertise to identify the optimal instruments to express (i) a long beta profile that generates passive income at times and takes advantage of the dislocations in the S&P Index options market and (ii) a short volatility profile to benefit from the spread between implied and realized volatility. Capstone will generally structure, trade, and risk manage derivatives instruments to target an equivalent risk unit as an equity exposure within defined limits for each Equity Replacement Solutions Account.

Passive Strategies. Capstone classifies skew risk premium harvesting methodologies as a "passive strategy" and takes advantage of the higher prices of out-the-money puts compared to the prices of out-of-the-money calls. These strategies can consist of selling puts, as well as buying calls to participate in additional upside when pricing is advantageous. The selection of the specific puts and calls is based on probabilistic analysis that compares the implied distribution curve with the actual historical distribution curve to look for discrepancies. Capstone's passive strategies have a higher beta or directional component compared to Capstone's active strategies.

Active Strategies. Capstone classifies volatility risk premium harvesting methodologies as an "active strategy." These strategies consist of selling short-term options and neutralizing the delta of the portfolio on a daily basis, selling short-term variance, and related strategies. These strategies take advantage of the general overpricing of implied volatility compared to the subsequent realized volatility and aim to generate income.

For both active and passive strategies, the trade identification process will entail both qualitative and quantitative components. Once a particular investment has been determined, Capstone



will have the discretion to execute and adjust the derivative trades necessary to effectuate the aim of such investment.

Capstone will formulate and develop general trade structures designed to produce payoffs that best serve the objective of each respective Equity Replacement Solutions Account. This involves building a universe of derivative instrument types (and combinations of those instruments) that Capstone will use to execute the investment strategy of an Account. This effort will be ongoing and the universe of investments will be dynamic, as Capstone will constantly be searching for and evaluating the optimal methods in which to replace underlying exposure in the relevant assets.

Capstone will monitor the market, leveraging its quantitative and qualitative tools along with market knowledge and market access, to determine when it is optimal to adjust the positioning held by each Equity Replacement Solutions Account. Positions will be managed and rotated to remain invested through the optimal products/strategies at any given time. Equity Replacement Solutions Accounts replace direct equity exposure, so Capstone does not increase or decrease directional exposure based on Capstone's views as to future direction of the equity markets.

Each Equity Replacement Solutions Account may choose to pay premium for certain structures when appropriate. Each Equity Replacement Solutions Account may also sell puts as part of the asset replacement process. However, it is not mandatory for such Account to have a short put position.

Each Equity Replacement Solutions Account may suffer losses during adverse moves in the underlying assets. An investment in the equity replacement program should be considered a long-term investment.

Opportunistic Investing

Capstone will seek to identify price dislocations within the options and volatility markets across different asset classes, and will trade across a multitude of instruments in the derivatives universe and across many different regions. The objective of each Account will be to capture what Capstone perceives to be the best value within the global option and volatility markets. The profile of an Account could range from being long volatility to short volatility depending on the opportunity set and mandate given to the Capstone by an investor. Accounts may also take directional views and may use options to express these views, the sizing of which will depend on the opportunity set and the mandate given to Capstone by an investor.

DDA

DDA trades the assets of the Master Fund pursuant to the Diversified Dynamic Alpha Strategy, which is a diversified global macro approach that allocates capital to various asset classes, investment strategies and investment styles. The investment strategy consists of the following three integrated sub-strategies: (i) long term fair value ("LTFV"), (ii) discretionary global macro ("DGMS") and (iii) systematic global macro strategies ("SGMS"). Capstone Netherlands seeks to manage the sub-strategies within the investment strategy in a complementary, integrated manner and in light of the Master Fund's overall portfolio and risk management principles.

MATERIAL RISKS OF CAPSTONE'S STRATEGIES

The strategies employed by Capstone involve risk of loss that clients and Fund investors should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Funds' investments. This



summary does not attempt to describe all of the risks associated with an investment in a Fund. Although no summary can fully describe all of the risks associated with such an investment, the Confidential Information Memorandum or other offering document for each Fund contains a more complete description of the risks associated with an investment in that Fund.

MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF CVM, DDA, AND SOLUTIONS ACCOUNTS

RISK OF INADEQUATE QUANTITATIVE MODELS. Capstone's trading will be highly model driven and materially subject to possible flaws in the models (both proprietary models developed by Capstone, and those supplied by third parties). Models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may not be reliable if unusual events specific to particular issuers, or major events external to the operations of markets, cause extreme market moves that are inconsistent with the historic correlation and volatility structure of the market. Models also may have hidden biases or exposure to broad structural or sentiment shifts. Furthermore, the effectiveness of such models tends to deteriorate over time as more traders seek to exploit the same market inefficiencies through the use of similar models.

RISK RELATED TO INVESTING IN DERIVATIVES. The prices of derivative instruments, including financial and commodity futures and options, are highly volatile. Because of the low margin deposits normally required in derivatives trading, an extremely high degree of leverage is typical of a derivatives trading account. Payments made pursuant to swap agreements may also be highly volatile. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested. In addition, the pertinent Fund's assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties.

Over-the-counter ("OTC") swap, forward and option contracts are not traded on exchanges and are not standardized. These markets can experience periods of illiquidity, sometimes of significant duration. Market illiquidity or disruption could result in major losses to a Fund. Such OTC derivative transactions also, subject a Fund to counterparty risk.

A Fund may make investments in credit default swaps, total rate of return swaps or other credit derivatives. Credit derivatives are a relatively recent development in the financial markets and entail certain legal, tax and market uncertainties. There is currently little or no case law or litigation characterizing these instruments, interpreting their provisions or characterizing their tax treatment. In addition, additional regulations and laws may apply to these instruments that have not yet been applied.

RISKS RELATED TO OPTIONS TRADING. Trading volatility is one of the most complex of all financial strategies and requires significant quantitative and mathematical resources and capabilities. The pricing of options involves a wide variety of factors—including the variability of interest rates, the time to expiration, the price of the underlying, the volatility of the underlying and general market sentiment. There can be no assurance that Capstone will correctly value CVM's or the Tail Protection Fund's options positions or that the market will, in fact, revert to theoretical values; consequently, substantial losses could be incurred by a Fund.

- *Risks Related to the Pricing of Volatility of Options.* Options are often quoted in terms of implied volatility. If Capstone incorrectly assesses market volatility, Capstone will misprice the options which it trades, which may result in significant losses.



- *Risks Related to the Time Value of Options.* Longer-dated options tend to be far less liquid than near-term options. Certain trades which Capstone may execute for CVM and/or the Solutions Accounts will value longer-dated options, which carry material incremental liquidity risk.
- *"Pin Risk".* Concentrated equity option positions become more risky at expiration if the underlying is trading at or near the strike price. This results in a difficult portfolio management environment. Similarly, if an option closes right at strike, a Fund could lose the entire premium on the option and possibly additional money on its hedge.
- *Interest Rate Risk.* Prevailing interest rates are a principal component of options pricing. Consequently, unexpected changes in interest rates can result in CVM and/or the Solutions Accounts incurring significant losses.

RISK OF MARKET STAGNATION. To the extent that the strategies implemented by CVM depend on changes in volatility, in periods of trendless, stagnant markets and/or deflation, these strategies have materially diminished prospects for profitability.

RISKS OF SHORT SELLING. CVM and the Solutions Accounts generally plan to engage in short-selling as part of their investment program. However, short selling, and especially short-selling on margin, is a risky strategy, and an unhedged short sale theoretically involves unlimited risk.

PORTFOLIO TURNOVER RATE MAY RESULT IN ADDITIONAL COSTS. The turnover rate of CVM's and the Solutions Accounts investment portfolios are expected to be significant, involving substantial brokerage commissions, fees and other transaction costs. CVM and the Solutions Accounts will bear such costs.

TRANSACTION VOLUME AND MARKET LIQUIDITY MAY IMPAIR PERFORMANCE. A decline in cash flows into the capital markets or a slowdown in investment activity in the capital markets, as well as other factors, may cause a decline in transaction volumes in the option markets. CVM's and the Solutions Accounts' investment activities may be affected materially by transaction volumes in the option markets. Higher market volume typically provides greater opportunities to engage in revenue-generating transactions and narrower bid/offer spreads. Therefore, a decline in transaction volumes may result in a Fund incurring significant losses.

GLOBAL MARKET RISKS AND EMERGING MARKET RISKS. CVM and the Tail Protection Fund will invest primarily in U.S. markets, European and Asian markets, but may invest on a more global basis in both developed and, from time to time, emerging markets. In doing so, a Fund is subject to currency exchange-rate risk; the possible imposition of withholding, income or excise taxes; the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital. Emerging markets present unusual risks, including government instability; political risk; lack of or less than transparent priority; the imposition of currency controls; expropriation risk; and the application of various laws and regulations. Volatility-related strategies in emerging markets are subject to unusual risks due to the uncertainty of such countries' legal regimes and procedures as well as the risk of other market participants having better access to relevant market information.

HEDGING RISKS. Capstone's investments may not be adequately hedged. Although certain investments are intended, in part, to hedge other holdings, there is no guarantee that they will do so to the degree predicted by theory or otherwise to a satisfactory extent. In calculating the overall exposure of the investments, Capstone must make certain determinations, including its



prediction of the future volatility of the investments. If Capstone were unable to forecast accurately any one or more of the components used to determine how best to hedge its investments, Capstone could, in practice, find itself over- or under-hedged, which could materially and adversely affect the performance of the investments.

MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF CVM

LEVERAGE RISK. CVM employs leverage in the execution of its investment strategies, both through its borrowings with its prime brokers and through the effective leverage embedded in its investments in derivative instruments, such as options, futures and swaps. Transactions in options, futures and swaps are inherently and at times substantially leveraged. This is because a relatively small dollar amount enables CVM to achieve a considerably larger exposure to the instrument underlying the options and futures. While a Fund may generally hold a substantial amount of cash, thereby reducing the effective leverage of such Fund, it is not required to hold any specific amount of cash, and the effective leverage may be substantial. The use of leverage increases any losses incurred on investments in direct proportion to the degree of leverage employed.

CVM trades based upon its assumptions regarding the availability of leverage under current margin rules and arrangements. If controlling authorities increase margin requirements or CVM is no longer entitled to exemptions from the general margin rules, CVM may not be able to pursue its objectives and may be required to liquidate positions at inopportune times or at unfavorable prices.

RISKS RELATED TO INVESTING IN HIGH-YIELD DEBT SECURITIES AND LOWER RATED LOANS. High-yield debt securities will have greater credit and liquidity risk than investment grade obligations. Risks of high-yield debt securities may include: (i) limited liquidity and secondary market support, (ii) substantial marketplace volatility, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates, (v) the possibility that earnings of the high-yield debt security issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such high-yield debt securities during periods of rising interest rates and/or economic downturn.

STATISTICAL ARBITRAGE TECHNIQUES MAY BE SUBJECT TO CORRELATION RISKS. While Capstone will utilize proprietary models to build its statistical arbitrage portfolios, it is possible that other statistical arbitrage funds' own proprietary models will generate very similar portfolios, so that buying and selling by CVM will coincide with buying and selling activities by such other funds. This circumstance could produce exaggerated movements in the prices of the stocks in the portfolio that were not anticipated by the models, resulting in losses to CVM.

DISPERSION STRATEGY RISK OF MISMATCHED PERFORMANCE OF RELATED POSITIONS. Pursuant to a "dispersion" strategy, CVM may buy and sell ETFs, futures and/or index and ETF options to hedge its other holdings or positions. Certain CVM positions may underperform the other positions to which they relate, which could result in losses.

CERTAIN OF THE FUND'S ASSETS WILL BE ILLIQUID. CVM may invest and trade in illiquid and restricted, as well as thinly-traded, instruments. CVM may only be able to liquidate these positions, if at all, at disadvantageous prices and hence may be required to hold such instruments despite adverse price movements.

MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF THE TAIL PROTECTION FUND



PREMIUM SPENT. The primary objective of the Tail Protection Fund is to provide “tail-risk protection” or “tail-risk hedging” during a convexity event. It is not the Tail Protection Fund’s objective to have positive performance during a period of a calm, protracted market decline. Generally, investors should expect the Tail Protection Fund to decline in value during most market environments, just as one would expect to pay insurance premiums to protect against other risks over time. Accordingly, in order to maintain the same level of exposure, investors will have to increase their investment periodically. In addition, an investment in the Tail Protection Fund should be considered a long-term investment.

MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF THE EQUITY REPLACEMENT SOLUTIONS ACCOUNTS

GAP RISK. The Equity Replacement Solutions Accounts’ investment strategy is exposed to gap risk. Gap risk is the risk that the underlying investment’s price will instantaneously, or over a very short amount of time, move significantly. For example, there is a risk that the relevant benchmark index could open its trading on a given day 10% lower. In addition to each Equity Replacement Solutions Account being exposed to the risk of large market moves, the Equity Replacement Solutions Accounts are also exposed to the risk of the market making those moves in such a short amount of time that Capstone is unable to adjust the portfolio positioning. For example, there is a risk from the delta-hedged strangles positions if Capstone is unable to execute its delta hedges due to market price gaps.

RELIANCE ON INTERNAL MODELS. Capstone relies on internal models to estimate the effect of market movements, including market shocks. The models estimate the effect on the portfolio due to estimates of the changes to the volatility surface. There is the risk that these models do not accurately estimate the effect on the volatility surface during market events, or that the change in the volatility surface has a different impact than predicted on the portfolio, and that the effect on the profitability of the portfolio is different than simulated.



Item 9 – Disciplinary Information

On October 19, 2006, Capstone Trading, LLC (“CT”) (a now-closed proprietary trading businesses owned by Capstone Holdings Group L.L.C., a now closed affiliate of Capstone), Scott Brindley (a trader with Capstone) and a former employee settled a charge by the Chicago Board Options Exchange, Incorporated (“CBOE”) alleging that CT, Brindley and the former employee failed to maintain a sufficient in-person trading percentage for a floor market maker and initiated and entered orders from off of the CBOE trading floor on behalf of a market-maker account with CBOE floor broker members, while not registered with CBOE as a market-maker. CT, Scott Brindley and the former employee neither admitted nor denied the alleged violations but agreed to be censured and to pay a fine.

On May 24, 2016, the Finnish Financial Supervisory Authority (the “FIN-FSA”) levied an administrative fine on Capstone Volatility Master Limited Fund (“CVM”) because the FIN-FSA determined that CVM did not timely submit the FIN-FSA disclosure to comply with the disclosure requirement under Article 6(1) of Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling (“SSR”). CVM sent a public notification of a net short position of 0.50% in the issued share capital of Nokia OYJ on October 10, 2014. Further short position movements led to disclosures cumulating to a 1.19% disclosure on November 12, 2015. Thereafter, on November 12, 2015 CVM closed/covered the entire short position of Nokia OYJ. During this period CVM made 10 timely notifications due to fluctuations in the Nokia short position. On November 13, 2015, due to administrative error, CVM failed to report that it had closed out of the Nokia position the previous day. On January 12, 2016, Capstone identified the error and self-reported the corrected position to the FIN-FSA. The FIN-FSA sent a letter to CVM on March 23, 2016 informing them of the matter and provided an opportunity to respond. However, in its subsequent decision the FIN-FSA wrote that the time specified in the SSR for submission of a notification to the competent authority is unconditional, and failure to comply with it cannot be corrected regardless of the mitigating factors highlighted by Capstone in its response. The FIN-FSA imposed a fine of €20,000.

To the best of Capstone’s knowledge, there are no additional legal or disciplinary events that are material to an advisory client or prospective advisory client’s evaluation of Capstone’s advisory business or the integrity of Capstone’s management.

As part of Capstone’s routine compliance monitoring, all employees are asked to certify upon hire, and thereafter on an annual basis, whether they have been the subject of any disciplinary actions.



Item 10 – Other Financial Industry Activities and Affiliations

As noted above, Capstone Fund Services, LLC (previously defined as “CFS”), an affiliate of Capstone, serves as the general partner of CVUS and as the manager of the CVIL and as such is entitled to receive performance allocations from CVUS and CVIL. Capstone Fund Services II, LLC (previously defined as “CFS II”), an affiliate of Capstone, serves as the general partner of the Equity Replacement Fund’s domestic feeder, of DDA, and of Pi Sigma.

Capstone Investment Advisors (UK), LLP (previously defined as “Capstone UK”) is a London-based subsidiary of Capstone that has been appointed by Capstone US as a sub-advisor to CVM. Capstone UK is authorized and regulated by the UK Financial Conduct Authority. Capstone UK provides discretionary investment advisory services to CVM. Capstone UK is compensated by Capstone for these services, and Fund investors are not subject to additional fees as a result of these services.

Capstone Netherlands is an Amsterdam-based affiliate under common control that has been appointed by Capstone US as the Trading Adviser to DDA. Capstone DDA Partners, L.P. (“DDA Partners”), a Cayman Islands limited partnership, for which CFS II serves as general partner, holds special member interests in Capstone DDA Partners, LLC.

Capstone US, Capstone Netherlands, and Capstone UK are filing a single Form ADV in reliance on the position expressed in American Bar Association, Business Law Edition, SEC No-Action Letter (January 18, 2012).

Capstone US and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Capstone US is registered as a commodity pool operator with the CFTC. Capstone US is also registered as a member of the NFA. While registered as such, Capstone US operates CVM, DDA, and the Solutions Accounts pursuant to an exemption from certain obligations of a registered commodity pool operator under CFTC Rule 4.7.

Private equity funds managed by NB Dyal Advisors LLC (“Dyal”) hold a passive, non-voting, minority equity interest in each of Capstone, CFS and CFS II. Dyal is ultimately controlled by Neuberger Berman. Dyal has no control over the investment process or day to day operations of Capstone, CFS, CFS II, or the Funds, but has certain consent rights relating to actions by Capstone, CFS and CFS II in respect of themselves.

Except as described in the brochure, neither Capstone nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its advisory clients with any related person that is a pooled investment vehicle, investment adviser, commodity pool operator or commodity trading adviser. In addition, Capstone does not recommend or select other investments advisers for its clients.



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

CODE OF ETHICS AND PERSONAL TRADING

In seeking to meet its fiduciary obligations, Capstone has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; employees must comply with all applicable laws and regulations, including, without limitation, federal securities laws; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Funds, including the Funds’ investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times.

The Code is applied to employees of Capstone US, Capstone UK and Capstone Netherlands. The Code places restrictions on personal trading by Capstone employees, including that they disclose their personal securities holdings and transactions to Capstone on a periodic basis. Employees are not permitted to buy and sell publicly traded securities or purchase shares of mutual funds that are advised or sub advised by Capstone (currently this only applies to investments in the BMO Alternative Strategies Fund). Employees are allowed to trade in treasury securities, municipal bonds, open-ended mutual funds and, with pre-clearance, broad-based Exchange Traded Funds, which are subject to a 30 day holding period. Employees may make investments in other private investment funds subject to preclearance. In addition, employees are permitted to hold accounts over which a third-party manager exercises exclusive discretionary authority.

The Code also includes policies and procedures that are designed to prevent the misuse of material, non-public information (“Insider Trading Policies”). Capstone’s Insider Trading Policies prohibit Capstone and its employees from trading for the Funds or themselves, or recommending trading, in securities of a company while in possession of material, non-public information about the company, and from disclosing such information to unauthorized persons.

In addition, the Code contains restrictions on the giving and receiving of gifts and entertainment, prohibitions on serving on the boards of outside companies without prior approval, and policies and procedures concerning political contributions in connection with Rule 206(4)-5 under the Advisers Act.

Employees of Capstone are required to certify to their understanding and compliance with the Code, initially upon commencement of employment, annually, and upon any change to the Code.

Capstone will provide a copy of the Code to any current or prospective client or Fund investor upon request.



PRINCIPAL TRANSACTIONS AND CROSS TRADES

Cross Trades

Capstone may use an unaffiliated broker-dealer or custodian or prime broker to cross securities and/or cash between client accounts when such a transaction is advantageous for each participant. In such cases, securities will generally be crossed at the current market price, the midpoint between the current national best bid and offer, or some other fair price as determined by Capstone. In the case of periodic rebalancing transactions, which would generally take place on the first business day of a month, crosses may be effected at the closing price on the day prior to the rebalancing. Any transaction costs will be divided equally between the participants. All cross trades must be approved in writing by the CCO or his designee. In determining whether to allow a cross trade Capstone will consider the following factors:

- Cross trade requests should generally not occur between CVM, DDA, and any Solutions account. The trading and positions of these accounts should be separate from one another so not trading should occur between them.
- Capstone will generally not elect to transfer securities through a cross trade if transacting both sides through the open market can be accomplished at a de minimus cost. Cost for these purposes would include broker fees, exchange fees and other fees associated with trading a listed security in the open market.
- Capstone manages a number of accounts as a QPAM fiduciary under ERISA. Generally speaking, ERISA Section 404(a)(1)(A)'s "exclusive purpose" requirement and the Section 406(b)(2) proscription against a fiduciary's acting in a transaction on behalf prohibit cross trades between an ERISA account and any of Capstone's other clients. While there are very limited statutory exemptions, the criteria often cause the exemptions to be unavailable or not worth pursuing.

Principal Trades

Section 206(3) of the Advisers Act prohibits Capstone and any Employee or other affiliate from trading with any client on a principal basis, or from recommending an agency cross trade to both participants, unless Capstone discloses the capacity in which it is acting to each participating client, or independent representative(s) appointed by such client, in writing before completion of the transaction, and obtains each participating client's consent to the transaction.

Capstone is prohibited from engaging in principal trades for certain Private Funds.



Item 12 – Brokerage Practices

GENERAL

Capstone has complete authority over the selection of the brokerage firms used to execute and clear portfolio transactions on behalf of the Funds and custody assets of the Funds.

BEST EXECUTION

Capstone's policy is to place portfolio transactions with broker-dealers who will execute transactions at the most advantageous terms reasonably available under the circumstances. Capstone will seek to obtain best execution taking into account all factors they deem relevant, including the quality of execution, the brokerage firm's financial responsibility and reputation, range and quality of the services made available to the Funds and Accounts, and the brokerage firm's professional services, including clearance procedures and ability to provide research information for consideration, analysis and evaluation by Capstone. If Capstone determines in good faith that the amount of transaction costs charged by a brokerage firm is reasonable in relation to the value of the products or services such brokerage firm provides, Capstone may incur transaction costs in an amount greater than the lowest cost available.

Capstone has no directed brokerage arrangements. If it were to engage in such arrangements, there is no assurance that best execution could be achieved.

Employees of Capstone may receive gifts and gratuities from broker-dealers or persons with whom Capstone does business. This may include meals, tickets to sporting events and other entertainment, transportation, attendance at seminars or other educational training or informational events, logo items and other items of small value, including gifts associated with life events such as birthdays or weddings. Employees may not accept gifts from any party that exceeds, in the aggregate, \$150 in value in any calendar year without the consent of the CCO. Capstone does not consider gifts and entertainment received when selecting broker-dealers. Any gifts and/or entertainment received must be reported to the CCO.

CONTEMPORANEOUS TRADING

Allocations of Trades and Investment Opportunities. Investment opportunities will generally be allocated among those Accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Account's objectives; (ii) the potential for the proposed investment to create an imbalance in an Account's portfolio; (iii) the liquidity requirements of an Account; (iv) potentially adverse tax consequences; (v) regulatory restrictions that would or could limit an Account's ability to participate in a proposed investment; and (vi) the need to re-size risk in an Account's portfolio.

Capstone will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any Account solely because Capstone purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to another Account if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable, desirable, or in the best interest for such Account.

In particular, when an Account is ramping up its investment or trading strategies, it may receive larger allocations of certain securities than other Accounts in order to obtain its desired risk and



portfolio size. Conversely, certain Accounts may receive reduced or no allocations of certain securities when other Accounts ramp up their investment and trading strategies. Each Solutions and DDA account (both with respect to CVM as well as to other Solutions and DDA accounts) and CVM may have investment objectives, programs, strategies and positions that are similar to or may conflict with each other, or may compete with or have interests adverse to one another. Such conflicts could affect the prices and availability of securities in which each fund invests. Capstone's fund offering documents and Form ADV state that even if an account has investment objectives, programs or strategies that are similar to those of another account, Capstone may give advice or take action with respect to the investments held by, and transactions of, certain accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, other Capstone-managed for a variety of reasons, including, without limitation, differences between the investment strategy, financing terms, regulatory treatment and tax treatment of the funds. As a result, each fund may have substantially different portfolios and investment returns.

Capstone's respective portfolio management teams for each of CVM, Solutions, or DDA, are independent of one another in that none trade for any other group. Capstone allows trading to be conducted for CVM, DDA and the Solutions Accounts independently of other activities, and does not seek to impose an allocation policy or methodology with respect to trading in overlapping securities between CVM, DDA and the Solutions. Capstone may also launch other Accounts in the future that are managed by separate portfolio managers that will also not be subject to any formal allocation policy.

Within the Solutions platform, when any two or more of the Solutions intend to trade into or out of the same positions on a particular day, it is the policy of Capstone to allocate such trades to the Solutions accounts on a fair and equitable basis, to the extent practicable and in accordance with each Solutions applicable investment strategies and guidelines, over a period of time.

Randomization. If Capstone determines that the purchase or sale of a security on an electronic platform is appropriate with regard to multiple Solutions Accounts, Capstone will generally send orders to electronic trading platforms for each relevant Solutions Account in a randomized order generated by Capstone. As such, one Solutions account may receive less favorable pricing than another Solutions account with respect to a particular trade. However, over time, the randomization process should negate the ability of any one Solutions Account to consistently receive such benefit. As a result, certain trades in the same security for one Solutions Account (including an Account in which Capstone and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another account, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. However, over time, Capstone believes that the randomization process equalizes the advantage seen by any one Account for one particular trade.

Aggregation. If Capstone determines that the purchase or sale of a security through an executing broker over the phone or chat (generally for complex options) or OTC is appropriate with regard to more than one Solutions Account, Capstone may but is not obligated to purchase or sell such a security on behalf of the relevant Accounts with an aggregated order for the purpose of reducing transaction costs, to the extent permitted by applicable law. Capstone expects to receive one price (or one average price of multiple fills) on such orders that can be allocated to each relevant Solutions Account based upon pre-determined trade sizes for each Solutions Account. In the event of a partial fill, allocations may be modified on a basis that Capstone deems to be appropriate, including, for example, to avoid odd lots or de minimis allocations. Some opportunities for reduced transaction costs and economies of scale may not be achieved.



Within DDA, the DDA investment team utilizes a split fill methodology for outstanding unfilled orders for two or more accounts executing similar trades. Each trade initiated by a portfolio manager will be executed by a separate execution desk (typically a different portfolio manager or trader) who will execute the orders for all accounts. The same execution trader will utilize the Bloomberg AIM allocation algorithm which assigns each fill received proportionately to the relevant sub-funds based on the parameters of the original order.

SOFT DOLLAR BENEFITS

Capstone currently has no material soft dollar arrangements. However, Capstone uses full-service broker-dealers that provide research or other products or services to most or all of their customers. As a result, Capstone may on occasion receive and use such services provided by these broker-dealers.

Such services may include research and other brokerage services. In such instances, Capstone may have an incentive to select broker-dealers based on its interest in receiving such research rather than based on the Funds' interest in receiving the most favorable execution.

Such full services brokers-dealers may also provide other products, including consulting services, risk analytics and capital introductory services to Capstone. In these situations Capstone receives a benefit because it does not have to pay for such services. Additionally, the capital introductory services provided by full service brokers-dealers provides Capstone with an opportunity to solicit new investor and client referrals. Capstone does not separately compensate such broker-dealers for the provision of such services and does not believe that they "pay up" for such services. However, the receipt of such services may pose a conflict of interest for Capstone, as Capstone may have incentives to select broker-dealers based on their interest in receiving such services rather than based on the Funds' interests in receiving the most favorable execution

Although Capstone does not currently have any material soft dollar arrangements, the investment management agreement entered into between the Funds' and Capstone (the "Investment Management Agreements") provide that Capstone may select the prime brokers for the Funds, and specifically authorizes them to direct brokerage to firms which provide research services and brokerage services in exchange for receiving commissions. Products and services acquired this way are generally referred to as services acquired with "soft dollars" (collectively "Soft Dollar Services"). It is Capstone's policy to enter into arrangements for Soft Dollar Services only to the extent that they are within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934. Accordingly, Capstone may in the future cause the Funds to pay a broker-dealer that provides brokerage services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if Capstone determines in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage, research or other services provided.

TRADING ERRORS

From time to time, during the course of trading for the Funds, trading errors will occur. Capstone has adopted a trading error policy that applies to the Funds. Pursuant to this policy, as a general matter and to the extent not inconsistent with Capstone's or any third party's contractual arrangements with the relevant Fund or applicable law, including ERISA, trading errors will be absorbed (in the case of a trading loss) or retained (in the case of a trading gain) by a Fund on whose behalf the trade was placed. While Capstone and its counterparties have controls in place to prevent trade errors, there is always the possibility that such errors may occur. Trading



errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system resulting in the wrong amount of securities purchased or sold or the wrong security purchased or sold. Given the volume of transactions executed by Capstone on behalf of the Funds, investors (other than funds of one subject to ERISA) should assume that trading errors (and similar errors) may occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of Capstone's personnel. Investors may contact Capstone with any questions related to Capstone's trade error policies.



Item 13 – Review of Accounts

Funds are generally reviewed daily by, or under the supervision of, Capstone's Chief Risk Officer in conjunction with his designated responsibilities.

Capstone considers the careful management of risk to be a critical element of a successful trading program and has developed a range of monitoring and analytical techniques intended to make risk management more rational and effective. For instance, Capstone monitors markets on an ongoing basis. When volatility and trading losses reach predetermined levels, positions are generally reviewed to determine whether to scale back or eliminate such positions. Each Fund's portfolio of positions and investments is monitored to maintain the targeted levels of risk and volatility. Capstone's Risk Management team seeks to enhance risk management disciplines, adding value-at-risk computations, stress tests and additional analyses to attempt to complement the risk control methods already implemented.

Fund investors receive monthly letters from Capstone describing the performance of the relevant Fund, along with a commentary by Capstone. Fund investors also receive monthly statements detailing their account information, including, but not limited to, the account's beginning and ending equity and the account's performance for that period. Performance information is also available through a secure link on Capstone's website. In addition, Capstone issues to the Fund investors annual audited financial statements concerning the relevant Fund (and, for U.S. investors, tax reports) within 120 days of the end of the Fund's fiscal year. Single investor funds and clients with separately managed accounts receive reports and other information in accordance with their managed account agreements.



Item 14 – Client Referrals and Other Compensation

Capstone does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither Capstone nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for investor referrals. Capstone may in the future enter into arrangements with third party placement agents, distributors or others to solicit investors in the Funds and such arrangements will generally provide for the compensation of such persons for their services at Capstone's expense.



Item 15 – Custody

The assets of the Funds will be held in cash or securities at the banks, brokerage firms, clearing firms and other financial institutions selected by Capstone. No cash or securities of the Funds will be held in the actual custody of Capstone or its affiliates. However, Capstone is deemed to have custody of certain assets contained in the Funds' portfolios since an affiliate of Capstone serves as the general partner of any US-domiciled Fund and Capstone has the ability to deduct their fees directly from the Funds' accounts. Such arrangements may cause Capstone to have custody for purposes of the custody rule under the Advisers Act. In such instances, investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit and the audited financial statements are distributed to each Fund investor within 120 days of the end of the Fund's fiscal year.



Item 16 – Investment Discretion

Capstone provides discretionary investment advisory services to the Funds and Accounts. Capstone makes investment decisions, without consultation with the Funds or the Funds' investors, regarding which securities are bought and sold for the Funds, the total amount of the securities to be bought and sold, the broker-dealers (if any) with which orders are placed for execution and (as applicable) the commission rates at which securities transactions are effected. Such discretionary authority is granted to Capstone in the applicable limited partnership agreement or investment management agreement (or sub-advisory agreement, to the extent applicable). Certain separately managed accounts or single investor vehicles or Funds managed by Capstone generally will provide investors with the ability to tailor the management of such accounts through investment and risk guidelines and may provide other specialized terms.



Item 17 – Voting Client Securities

PROXY VOTING

In compliance with Advisers Act Rule 206(4)-6, Capstone has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with Capstone's proxy voting policies and procedures, which are designed to take into account the best interests of the Funds, as determined by Capstone in its discretion.

Due to the nature of Capstone's advisory services, a majority of the strategies employed largely use quantitative valuation models and a largely systematic approach to trading rather than a long-term investment approach. Such strategies are generally not dependent upon the outcome of proxy contests, and in such circumstances Capstone will generally refrain from voting proxies. If, however, Capstone receives a proxy request with respect to a security Capstone determines a Fund will continue to hold, and Capstone determines that the costs and expenses associated with voting do not outweigh the potential benefit to such Fund of voting, Capstone will seek to vote the proxy in the best interest of the pertinent Fund.

At times the same investment may be held by multiple portfolio managers managing different portions of the overall portfolio. This may occur for a multitude of reasons and may result from different perspectives or outlooks on the underlying investment. As such, proxy votes related to these overlapping investments may result in opposing votes in the same issue. Proxy votes are ultimately decided by the portfolio manager in accordance with his perspective on the issue and underlying investment. As such, if an investment is held by multiple portfolio managers for different reasons or with different outlooks, while rare, the portfolio manager with the larger position's view will prevail.

The Statistical Arbitrage group within CVM's portfolio management team trades in a large universe of securities as part of their portfolio; it is not possible for them to provide rationales for voting or abstaining when they hold long positions. Therefore Capstone has provided the group with a general abstention from proxy voting.

Clients may obtain a copy of Capstone's proxy voting policy and its proxy voting record upon request.

CLASS ACTIONS

Clients are sometimes entitled to participate in class action litigation brought by one or more Plaintiffs against the issuer(s) of certain securities. Various sources may provide notification of these class actions.

Each class action involves certain legal rights that the owner/beneficiary of the security should consider before becoming a member of the class. A third party provider gathers the necessary information from outside sources, determines whether the Fund is eligible to file based on trading activity, files the claim on behalf of the Fund when appropriate, and monitors the class action throughout the process, which may be years. The vendor will maintain records of the class action.

As compensation for its services, the third party provider retains 15% of the net proceeds of each settlement.



Item 18 – Financial Information

Capstone is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its clients, and Capstone has not been the subject of a bankruptcy petition at any time during the past ten years.